



6th Global ESG Conference

Key takeaways from the agenda sessions

J.P. Morgan's 6th Global ESG Conference took place on 23-25 March 2021 in a virtual format and attracted a record 2,000 participants. In this report, we highlight the key takeaways of the 32 panels, keynotes and fireside chats held during these three days. We thank all the panelists, as well as investors, for their contribution to the success of the J.P. Morgan Global Virtual ESG conference. The replay is available upon request [here](#).

- **6th edition of the Conference signals a coming of age for ESG investing.** Panelists across regions signaled confidence in the regulatory and market support for ESG investing in multiple asset classes. Looking back to 2020, COVID-19 acted as a "real life" stress test: AUM in ESG-focused funds increased by 95% vs. 2019, driven by the pandemic and country pledges to reach "Net Zero", among which the EU, the US, and China.
- **Climate retains the top spot of the most actionable theme**, technologies (H2, electrification) and methodologies remain a priority, **yet we noticed a clear increase in the discussions about social issues as the pandemic challenged workforces and supply-chains globally.** Measuring social performance remains a challenge for impact strategies or social bonds. With the tragic death of George Floyd in the US, Diversity & Inclusion also came to the forefront.
- **Regulation is moving fast in all geographies:** panels highlighted that new regulations were driving innovation throughout the global ESG investing landscape. We note that, while Europe still leads with its ambitious Sustainable Finance Agenda, Asia and the US are catching up with several local initiatives as well as the widespread adoption of global standards such as the TCFD.
- **Value-chain approaches are the new standard for ESG investing.** Multiple panels highlighted the need to assess the net sustainable performance on E, S and G pillars across value chains. New regulations such as the EU Due Diligence for Supply-chains will push for a proactive approach to social & environmental risks integration. Net-Zero targets force companies to map and engage with their supply chains leading to a decarbonization "domino effect".
- **Transitioning uncover risks & opportunities:** Uncertainty around transitions paths and paces drives uncertainty around valuation. We expect ESG engagement and collective action such as Climate100+ to bring more transparency, but also activist investors targeting sustainability laggards. The IPOs and SPACs boom is seen as a positive for investors seeking impact.
- **Forward-looking approaches should not lose sight of the "system change" ambition.** The rise of impact measurement is driven by the need for sustainable investing to deliver real-world impact and avoid greenwashing.

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Executive summary

J.P. Morgan's 6th Global ESG Conference took place on 23-25 March 2021 in a virtual format and attracted a record 2,000 participants. In this report, we highlight the key takeaways of the 32 panels, keynotes and fireside chats held during these three days.

We thank all the panelists, as well as investors, for their contribution to the success of the J.P. Morgan Global Virtual ESG conference. The replay is available upon request [here](#).

ESG Investing is reaching the age of maturity

The 6th edition of the J.P. Morgan Global ESG conference may signal a coming of age for ESG investing, as panelists across regions signaled confidence in the regulatory and market support for ESG investing.

COVID-19 acted as a “real life” stress test for ESG investing, highlighting the resilience of ESG strategies throughout a business cycle (see [here](#)). 2020 saw assets under management in ESG-focused funds increase by 95% vs. 2019. This was largely driven by the COVID-19 pandemics, and the strong acceleration in country specific pledges to reach “net zero” by mid-century, among which the EU, the US, and China ([here](#)). COVID-19 represented the second paradigm shift for ESG, after the Paris Agreement in 2015.

While climate retains the top spot of the most actionable theme, we noticed a clear increase in the discussions about social issues, as the COVID-19 crisis challenged workforces and supply-chains globally. Yet, measuring social performance remains a big challenge, for impact strategies ([here](#)) or within social bonds ([here](#)). With the tragic death of George Floyd in the US, issues around Diversity & Inclusion also came back to the forefront. Companies are increasingly being asked by stakeholders (including shareholders) to take action and drive real change on inclusion. In a keynote ([here](#)), SAP highlighted how a data-driven approach can help a company deliver on these goals.

Interestingly, we believe that governance will see a comeback as investors attempt to track the effective implementation of corporate sustainability commitments, with failure likely to result in engagement and/or activist campaigns ([here](#)).

Simplistic ESG trades soon over? We believe that “mature” ESG investing would translate into no longer being a marketing acronym, but an integrated and interconnected analysis of issues. We expect the time of simplistic “ESG trades” such as “dark green vs dark brown” to soon be over. Beyond the difficulties associated with the assessment of sectors in transition ([here](#)), the emerging frameworks and investors' roadmaps around the integration of “Just Transition” ([here](#)) are excellent examples of the shift towards a more balanced and more nuanced ESG investing.

Regulation is moving fast in all geographies, spurring innovation

Overall, panels have highlighted that new regulations were driving innovation throughout the ESG investing landscape. We note that, while Europe still leads on regulation with an ambitious agenda and multiple mentions of the structural revolution that represents the Sustainable Finance Disclosure Regulation (SFDR), Asia and the US are now catching up with several local initiatives as well as the widespread adoption of existing global standards such as the TCFD.

In Europe ([here](#)), SFDR, with level 1 disclosure required since March 10, 2021, represents the greatest attempt yet to push for minimum standards of disclosure pertaining to ESG related investment products. The shadow of the regulation was present in a majority of panels, which stressed the structural support it would provide for ESG investing in Europe. Yet, investors reported to be struggling with the complexity of the regulatory package, and the fact that national regulation authorities seemed to have different expectations from European ones. Data remain an issue and upcoming regulations on corporates' ESG reporting, such as the revision of the NFRD, are expected to improve that. In the meantime, investors are increasingly diversifying data sources, moving away from "reported data" to leverage alternative data sources through AI and NLP based processes ([here](#)). Such data sources represent interesting opportunities to approach "intangible assets" such as Human Capital in a way that avoid the positive bias of data reported by corporates, as demonstrated by JPM Research through its Human Capital Factor ([here](#)).

In the US, the change of administration will likely provide regulatory support to historically market driven initiatives. The Biden-Harris administration highlighted its willingness to progress on mandatory climate disclosures. This change in policy support appears to have been well anticipated by US firms. General Motors CEO Mary Barra ([here](#)) outlined plans to transition the company's entire portfolio of light vehicles to 100% battery electric by 2035, with these vehicles earning as high or higher margin than the internal combustion powered models they replace.

In Asia, a flourish of new initiatives ([here](#)). Hong Kong amended disclosure rules in 2020 to include a mandatory statement from the board on ESG, a new disclosure requirement on climate-related issues, relevant targets to environmental KPIs, and lastly upgraded disclosure on Social factors from voluntary to comply-or-explain. Without mandatory requirement, Japan still had ~300 companies adopting the Task Force on Climate-related Financial Disclosures (TCFD), which would place it as global leader in terms of national reporting companies. Moreover, Corporate Governance remains a strong focus in the region, with the need to develop approaches that take into account local specificities ([here](#))

Greenwashing risk is lurking as standardization and control of ESG reporting lags market's interest. During this keynote ([here](#)) Sir Donald Brydon noted increasing obligations on companies to report on the E part of ESG could lead to increased greenwashing. He also highlighted that a dedicated auditor profession, not the "accountant-dominated" auditors of today should emerge, including to tackle ESG reporting. The new auditor profession would have training and recognition at the core of the curriculum, whether the auditor is a specialist in financial statements like today's auditors, or whether they provide assurance over other areas such as carbon emissions, asbestos liabilities, oil reserves, cybersecurity, or even possibly culture.

The integration of sustainability issues imply the transformations of business models across value chains.

Value chain approaches are the new standard for ESG investing. Multiple panels highlighted the need for a broad approach to social & environmental issues. Corporate Climate Commitments on Net-Zero are multiplying and have impact across value chains. Measuring the overall contribution of companies to the Sustainable Development Goals also implies a view of the overall “net impact” across the value chain.

In addition, new regulatory requirements such as the EU Due Diligence for Supply-chains are pushing for a proactive approach to social & environmental risks integration in the upstream ([here](#)). This fundamental shift from a reactive approach to controversies such as with the Xinjiang forced labour issue would force companies to have better knowledge of their supply chains in order to take accountability.

Transitioning to circular business models ([here](#)) will require a complete transformation of both upstream and downstream parts of the value chain. Doubling the circularity of the economy to about 17% could help keep global temperature rises well below 2-degrees. However, while Net Zero targets are the “new normal”, circular economy targets represent the next focus. This represents an opportunity for investors, as opportunities related to this theme are harder to spot, leaving some value uncovered. We expect companies which proactively communicate on their eco-design practices (such as Saint Gobain - [here](#)) to benefit from their positive exposure to these “harder-to-capture” environmental themes.

Biodiversity as yet to be really accounted for and likely represents the next frontier of impact. Accounting for the corporate impact on natural habitat requires the development of new methodologies but initiatives such as the Task Force on Nature-related Financial Disclosures are tackling the issue. Panelists ([here](#)) discussed tools available to investors to start working on the issue, highlighting that – similar to climate change – the accounting of natural capital had the potential to lead to the repricing of assets and shift significant amount of capital when a critical number of investors will have integrated natural capital into their responsible investment frameworks. As such models already exist and are driving corporates strategies, as demonstrated live by Kering ([here](#)), the question is less about “whether” this can happen, but rather “when” this will be happening. The food sector is seen as one of the most exposed sectors, due to the current massive negative impacts of the current food production process. However, the transition towards more sustainable food is already ongoing, and accelerated significantly in 2020 – according to the panelists from the “Food of the Future” panel ([here](#)).

These transformations can represent both threats and opportunities for companies and investors. We expect ESG activism to become even more widespread, through engagement and collective action such as Climate100+, but also through activist investors targeting sustainability laggards (see [ESG Wire - Are activist investors surfing the ESG wave?](#)). The boom in the listing of solution providers, through IPOs and SPACs was mentioned as positive for investors focusing on impact ([here](#)), yet for young listed companies, being targeted by activists or by larger groups seeking external growth could materialize rapidly.

In the meantime, clean tech remain a key focus: 2020 represented a year of strong inflows into thematic ESG strategies, and in particular within “clean” and “Low carbon” strategies. As such, the potential for new technologies such as green and low

carbon hydrogen ([here](#)), ([here](#)) or batteries ([here](#)) remains promising and scrutinized by investors.

Forward-looking approaches should not lose sight of the “system change” ambition

A shift is happening, with companies being asked to justify their societal contribution alongside with profits ([here](#)). This has been notably shown by the growth in certified B-Corps, which now reach 4,000 companies globally, although only 16 of them are publicly listed. While we can anticipate this number to grow, we mostly expect traditional corporate governance to increasingly integrate non-financial targets and stakeholder-driven considerations. The alignment of the business strategy with sustainability targets, expertise of the Board on these issues and the integration of strategy-aligned ESG performance criteria in the remuneration of executives is quickly becoming market standard across sectors and geographies.

We view impact investing as the next evolution of ESG investing. We argued so in our ESG primer published at the beginning of 2020. Yet, this year’s conference strengthened our conviction. The rise of impact is driven by the need for sustainable investing to deliver real-world impact to avoid greenwashing criticism. In Europe, SFDR will accelerate the domination of ESG funds and we expect them to represent the bulk of new and repurposed funds in the region. As the integration of ESG factors in investment processes and investor engagement is quickly becoming mainstream, the competitive pressure to differentiate will naturally drive investors towards impact.

Unprecedented growth in Sustainable Debt Markets

Unprecedented growth for Sustainable debt market: 2020 was an explosive year for Green Bonds. Even as the green bond asset class approaches \$1.5 trillion in size, Sean Kidney (CEO, Climate Bonds Initiative) ([here](#)) remarked that there was sufficient demand from investors and asset owners to absorb another \$1 trillion in issuance. This growth was however not limited green bonds. While social bonds are not new, their issuance was multiplied by 7 in 2020 (vs. 2019), reaching \$147bn. This was helped by COVID-19, which contributed to diversify underlying projects, while working groups within ICMA published “Social Bonds Principles” to help issuers in their programs ([here](#))

Greenium is not a myth, and here to stay. The “Green Bond” panel ([here](#)) noted that government regulations are likely to result in greeniums being a staple of the green bond asset class. In the corporate space, research suggests that green instruments have an average premium (greenium) of approximately 7bps for corporate bonds when compared to similar non-green instruments. On the sovereign side, the average greenium is lower at approximately 3bps.

Sustainability linked bond boomed ([here](#)), filling up a gap left by Green Bonds. Panelists highlighted that these new instruments provided issuers with more flexibility and a better ability to link bonds issuance with already existing ESG strategies. Investors highlighted that SLB were likely to be more fitted than Green bonds for “industrial” sectors that needed to transition. Interestingly, such instruments quickly permeated to other parts of the FI market, such as convertible bonds and loans.

Yet, the rest of the Fixed Income world remains “behind” when it comes to ESG investing ([here](#)). This is also felt by Sustainable bonds issuers, such as Enel ([here](#)). However, sustainable investing is just as important for bond investors as equity, particularly in the context of downside risk. Panelists highlighted that this is starting to change. Albeit, similar to equities, there is no "one size fits all" approach, Ongoing regulatory developments are expected to bring more standardization.

Sovereign issuers require a more tailored approach ([here](#)): J.P. Morgan found within its inaugural ESG survey dedicated to EM investors ([report](#)) that clients seek to integrate sovereign ESG factors within their investment process to “support those countries that have the greatest sustainability journey.” However, this is in contrast to the outcomes of multiple ESG vendors' sovereign ESG ratings. A more tailored approach and careful data selections are required for investors to develop a coherent approach on ESG in sovereign Fixed income.

Thematic overview

Environment		Social	Governance	ESG Advisory	Green & Social Bonds / ESG in Fixed Income
Are we really closing the circularity gap? (Panel)	Saint Gobain – “Sustainability as a product characteristic” (Fireside chat)	SAP- Diversity and Inclusion as a strategic objective (Keynote)	Restoring trust in the auditing industry	European ESG regulatory outlook: what should investors have in mind (Panel)	Green Bonds: “Behind the Green Curtain” (Panel)
Future of Food: Are consumers preferences reflected in companies' numbers?	Air Products and Chemicals – Energy Transition and Hydrogen (Fireside chat)	Measuring the social contribution to the UN's Sustainable Development Goals (Panel)	Corporate Governance in the Asia Context	ESG in the US: A new dawn (Panel)	Fixed Income Sustainable Investing – ESG's Next Frontier (Panel)
Kering - Measuring Environmental Impacts: Insights from Kering's EP&L (Live Demo)	Navigating the Hydrogen opportunity (Panel)	ESGQ and the ‘Human Capital Factor’ (Keynote)	How to foster the long-term focus of capital? (Panel)	Asian Regulatory Outlook on ESG Investing	Sovereign ESG Analysis – Hurdles in the Sovereign Debt Space (Panel)
Integrating biodiversity concerns in an investment framework (Panel)	Batteries and Mobility: focusing on a fast moving value chain (Panel)	Building a sustainable supply-chain (Panel)		AI and ESG (Panel)	The Sustainability Linked Bonds Boom
China Carbon Neutrality 2060: Implications on climate reporting, asset risks and energy transition (Panel)	General Motors - Pursuing a vision of zero crashes, zero emissions, and zero congestion (Keynote)	Fair Transition in the context of climate strategies: who should pay for carbon? (Panel)		ESG passes the COVID test	The Rise of Social & Sustainability Bonds
“Climate: what really matters when making an impact and exceptional returns” (Fireside Chat)	Climate Transition Finance				Enel: Sustainable Issuer experience

Day 1 - March 23rd

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Asian Regulatory Outlook on ESG Investing (Panel)

Institutional investor's adoption of ESG investing has grown rapidly in Asia in the past few years, partly driven by regulators stepping up on environmental, social and governance disclosures. We hosted a panel on Asian regulatory outlook on ESG investing at J.P. Morgan Global ESG Conference. The speakers were Ms. Grace Hui, Head of Green & Sustainable Finance, Hong Kong Exchanges & Clearing Limited (HKEX), and Mr. Mitsuo Miwa, Director General, Global Strategy & Sustainability Committee, Japan Exchange Group (JPX).

Green bond issuance accelerating in Hong Kong. The Hong Kong Financial Secretary has proposed to double the borrowing ceiling of the Green Bond Government Program to HK\$200 billion to allow for further issuance of green bonds within the next five years, as the government sees the green and sustainable financing to be the key initiative to accelerate its carbon neutral target by 2050. In 2020, 56 green and ESG-related bonds were listed on HKEX, amounting HK\$213.9bn cumulatively, up from 3 listed bonds of HK\$10.3bn in 2016. More products such as climate transition bond and sustainability-linked bonds will be introduced.

Japan – upcoming revision of the Corporate Governance Code will be the key. Japan is currently the third largest economy based on sustainable investment revenue. The corporate governance reform first took place in 2012 upon Abenomics as strong governance structure was identified as a source of earning power. Japan introduced the Stewardship Code in 2014 and the Corporate Governance Code in 2015, while Environmental and Social concepts were incorporated into the codes later. A new revision will be released for public consultation this year, aiming for further improvement in governance, increased diversity in middle management, and enhancement of ESG disclosure. In addition, the Tokyo Stock Exchange will introduce the new market segmentation, where companies in the newly created Prime Market will require higher corporate governance standards.

5 sustainable projects to lead the way for the Greater Bay Area (GBA). The Green Finance Alliance of Guangdong-Hong Kong-Macau Greater Bay Area aims to incubate green investments in the area through 5 projects, namely the Green Building Project, the Blockchain Solar Project (a new class of digital sustainable investment to accelerate solar energy), the Carbon Connect (for a carbon market place for cross-border trading), the Solid Waste Disposal, and Development of Green Supply Chain Financing Action Guide, the first three of which would be led by Hong Kong and the last two would be led by Shenzhen and Guangdong respectively.

Sustainability-linked investment of GBA going to renewables and transport projects. The green business potential for GBA is expected to increase from US\$90bn in 2018 to US\$450bn in 2030. The majority of the sustainability-linked investment is expected to go into renewable energy and transport projects.

Latest ESG disclosure requirement in Hong Kong – from voluntary to mandatory. Hong Kong first introduced voluntary disclosure rule in 2012, and upgraded to comply-or-explain basis in 2017. The rule was amended in 2020 to further tighten the disclosure requirement. The amended areas included a mandatory

statement from the board on ESG, a new disclosure requirement on climate-related issues, relevant targets to environmental KPIs, and lastly upgraded disclosure on Social factors from voluntary to comply-or-explain. The goal of the amendment was to shift the focus from reporting to management and board accountability. The effectiveness and reception of the new standards is expected to be seen early next year through companies' ESG reporting.

Japan – filling the knowledge gap with encouragement. Without mandatory ESG disclosure requirement, Japan still had ~300 companies adopting the Task Force on Climate-related Financial Disclosures (TCFD), ranking first in the world by country, according to Mr. Miwa. As listed companies' corporate governance disclosure has been enhanced in the past years, Japan introduced more guidance and learning materials on the environmental and social disclosure side. These included the publication of good practice over ESG-related descriptive information by the Financial Services Agency, a disclosure guidance by Japan TCFD Consortium, and the ESG Handbook and knowledge hub introduced by the Japan Exchange (JPX). Mr. Miwa expected the discussion over ESG issues will accelerate as Japan's growth strategy is being formulated in the summer.

The Launch of Sustainable and Green Exchange (STAGE) by HKEX. Launched in December 2020, STAGE is Asia's first multi-asset sustainable investment product platform. It was created for the purpose of providing additional ESG information flow, a market infrastructure of sustainable asset classes, and financing alternatives for Small and medium-sized enterprises (SME) besides banks and private equities. There are currently 48 sustainable investing products in STAGE's product repository, with more asset classes to be added in the future. Issuers are required to disclose the use of proceeds and post-issuance report annually, which made STAGE a trusted and easy-to-use platform for the green sector.

Diversity and human rights, employee health and safety, and sustainable supply among the top Social factors. Mr. Miwa believed raising awareness was the first step in enhancing social practices. JPX along with the Ministry of Economy and Trade and Industry published an annual report highlighting companies that demonstrated good practices over women's activities and health management. On the other hand, Ms. Hui reemphasized the disclosure requirement on Social aspects in Hong Kong following the amended ESG disclosure rules, which allowed investors to assess the risks associated with issuers on their supply chain management, as well as employee safety and anti-corruption practices.

ESG Standards are different, but material ESG issues are the same. According to Ms. Hui, HKEX expects listed companies to disclose material ESG issues from the standpoint of the business and stakeholders, combined with consistency of reporting. Mr. Miwa advised that it was very important for listed companies to agree with investors on the most material issues. At the same time, the International Financial Reporting Standards Foundation trustees formed a working group on March 22 to focus on harmonizing global sustainability reporting standards in preparation for a potential international sustainability standard board, a positive sign for a unified global ESG reporting standard.

Asset managers adopting ESG is the inevitable trend in Hong Kong and Japan. In Hong Kong, regulators proposed to mandate all relevant sectors, including asset management, to share ESG information in line with standards under TCFD, by 2025.

The Securities and Futures Commission also mandated fund managers to consider ESG in their investment and risk management process. Whereas in Japan, pressure from asset owners, including large pension funds such as the Government Pension Investment Fund (GPIF), will force a shift in attitude towards ESG for both asset managers and listed companies.

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Corporate Governance in the Asia Context (Panel)

Corporate governance has been a topic of interest to Asian investors for years given regulatory and cultural differences from the western world. We hosted a panel on corporate governance issues in the Asia context at J.P. Morgan Global ESG Conference. The speakers were Dr. Mingyi Hung, Head, Department of Accounting & Fung Term Professor of Accounting / Chair Professor, Hong Kong University of Science & Technology; Dr. Lawrence Loh, Director of Centre for Governance, Institution & Organizations, National University of Singapore Business School, and Mr. Shailesh Haribhakti, Chairman of Shailesh Haribhakti & Associates.

>> **Replay of the full panel could be accessed [here](#).**

Differences lie in cultural capital, relational capital and competitive capital.

According to Dr. Loh, the key differences for Asian corporate governance could be summarized in three Cs – Context, Connect and Contest. Asian companies emphasize on developing cultural capital, which spurs difference from western companies. They also tend to more frequently rely on relational capital, where businesses are conducted through relationship instead of disciplines of the market place. In terms of competitive capital, Asian companies tend to show more eagerness in showing competitive edge over peers. It could drive companies to adopt better corporate governance practice, but also lead to sacrifice of corporate governance in pursuit of faster decision making and self-perceived better outcomes.

Political connections lead to less transparency. According to a global study conducted by Dr. Hung, political connected firms, classified as firms with large shareholders or key directors serving as the head or minister of state or a member of parliament, are less transparent due to lack of need for outside capital. Discretionary accruals were observed from these firms for the purpose of better financial results. Investing in political connected firms enjoys the benefit of political protection but also runs risks related to political change in policy structure and election outcomes. It was also found that when no long politically connected, these companies tended to demonstrate better transparency.

The corporate governance quality of State Owned Enterprises (SOEs) have improved dramatically. Dr. Loh shared his study that SOEs have evolved a lot in Asia. In China for instance, the largest state-owned banks have transformed through commercialization and inserting capital market disciplines. In Vietnam, privatization and capitalization were seen from state ownership. In ASEAN, SOEs are commonly called Government Linked Companies (GLC). According to the study, GLCs have consistently outperformed normal companies in terms of corporate governance quality in Singapore, contributed by more resources and collective culture imposed by the top holding companies for better accountability and disclosure.

China to increase assertion towards carbon neutrality goals. Chinese government is believed, according to Dr. Loh, to reassert themselves in SOEs to pivot towards environmental and growth goals, and expedite the process towards carbon neutrality. SOEs could therefore be seen at the forefront of energy transition ahead of the private sector in China.

Focus for India – strategic planning, social responsibility and cybersecurity. Mr. Haribhakti shared his observation from serving multiple boards in past decades. He saw Indian companies shifting from compliant-driven behavior to strategic thinking, which allowed them to build back Sustainable Development Goals (SDGs) and ESG

frameworks into organizational planning. The merging of corporate governance and social responsibility has been seen to become an obligation for many profit-making operations. And last but not least, cybersecurity has become one of the most sensitive topics for boards in India.

Evaluating accounting quality by assessing the relation between reported numbers and economic fundamentals. Dr. Hung shared that there is a high correlation between the likelihood of restatement and high level of expected accruals. A wide dimension of factors need to be looked at, which include the complexity of a company's financial reporting, its disclosure tone, and opacity of disclosures. Accounting red flags include questionable accruals and recognition of abnormal inventory build-ups.

Investor activism has room for growth in Asia. Investor activism was only seen in very few Asian countries such as Korea and Japan. Dr. Hung noted that the investor activism is largely driven by foreign shareholders instead of domestic investors. As Asia is opening up, the volume of investor activism will increase. On the other hand, Dr. Loh pointed out that the minority shareholders in Asia might lack the incentives for active engagement and a lack of proxy laws could create obstacles for active investors in Asia.

India featuring mandatory governance reporting and assessment. One of the most unique characteristic of corporate governance in India is that not only a governance report is mandatory for listed companies, but the evaluation on the board function, individual directors and committees is also mandatory. Some of the assessment results are displayed on company websites, which creates large pressure and incentives for companies to increase transparency and search for best practices.

East vs. West – unified standard is required, factoring in Asian context. Dr. Loh believed that the social network influence within the Asian culture is very hard to capture through an existing corporate governance law or standard, while Dr. Hung highlighted the different ESG reporting method observed from public companies in Asia due to budget constraint could lead to different assessment. Mr. Haribhakti predicted that there would be a unified sustainability reporting standard in the next 12 to 18 months.

Blockchain could shift the paradigm of accounting and audit practices. According to Mr. Haribhakti, the deployment of blockchain technology on corporate accounting has begun in India, in favor of automatic capturing of datasets over manual data entries. It created challenges for the audit industry to bring the same data analytics capabilities into the auditing process.

Evolving role of independent directors in India. In late 2019, the Ministry of Corporate Affairs (MCA) of India introduced the Independent Directors Rules with the objective to uphold the objectivity of the appointed independent directors on a company's board. The role of independent directors is crucial as their final decision will prevail in a scenario of split opinions from the ownership. With the globalization of Indian businesses, independent directors need to navigate different legislations across multiple jurisdictions and apply the force of new legislative intent to examination of business practices. For instance, Indian exporters will need to abide by the Modern Slavery Act in UK, Australia and New Zealand, etc.

Restoring trust in the auditing industry (Keynote)

Participants:

Sir Donald Brydon, Chairman,
Sage Group

The Board of Directors is the first level of control: The collegiality and collective accountability of British unitary boards helps to align non-executive interests and objectives with those of the executives. The independence of Boards has greatly progressed and the time when boards deferred without question to the chief executive, usually called then the managing director or general manager, is gone.

The rise of institutional investment has developed a relationship of accountability between the board and the company's investors. Through the development of equity markets from the 1960s, the return of equity investments has become so much more important in the overall returns of insurance companies and pension funds. It is therefore logical that investors began to want to know more about what is going on in the companies in which they invested. The work of non-executive directors started to become more onerous.

There is an unspoken disconnect in the ownership system, which makes resolving all the competing pressures troubling. Most investors still view relatively short-term financial performance as the most important of all the objectives. Boards have to take risk and control risk in pursuit of that performance, and worse, the way in which they do this may differentiate the best from the good or the rotten.

Corporate governance & Audit are inextricably linked. To take risk together, to share responsibility, and to support the executive, boards need to be relatively small. Large boards can lead to divide and rule, insufficient debate, the carrying of passengers, and less robust decision making. The current direction of travel risks all this. It's no accident that the very long-awaited white paper from the government published mid-March is headed "Restoring trust in audit and corporate governance".

The Brydon review into the quality and effectiveness of audit published in December 2019, highlighted that it is not auditors that cause companies to fail. It is the directors. Nevertheless, with their unique and privileged access, auditors have a very important role in providing assurance to both the board and to other stakeholders. This has been recognized in the UK government's recent proposals, making clear that it is not at all unreasonable to expect auditors to take into account the public interest in undertaking their work.

New British proposals should improve investors' confidence: Evolution in the British regulation, with the clarity of responsibility on directors to show what actions they have taken to prevent and detect material fraud combined with the auditor's obligation to report on that statement should both reduce the incidence of fraud and improve trust. Alongside this, a resilience statement would be a welcome way of better-informing stakeholders of the risks that lie ahead, and the way in which, not necessarily by laying out precise actions, the directors propose to handle the relevant risks. Yet increasing obligations on companies to report on the E part of ESG could lead to increased greenwashing.

A dedicated auditor profession, not the "accountant-dominated" auditors of today should emerge, including to tackle ESG. The key to success, is that the training and recognition of the auditor of the future will have at its core the same curriculum, whether the auditor is a specialist in financial statements like today's auditors, or whether they provide assurance over other areas such as carbon emissions, asbestos liabilities, oil reserves, cybersecurity, or even possibly culture.

Participants:

Wim van Hyfte, Global Head of
ESG investments & research,
Candriam

Martijn Lopes Cardozo, CEO,
Circle Economy

Dr. Patrick Gloeckner, Head of
Global Circular Plastics Program,
Division Specialty Additives, Evonik

Moderated by:

Jean-Xavier Hecker, Co-Head of
ESG & Sustainability research,
EMEA Equity Research, J.P.
Morgan

Are we really closing the circularity gap? (Panel)

Beyond climate change, investors' and civil society's awareness is rising on other significant environmental issues. Among them, the Circular economy is seen as increasingly important. In the [Consumer Staples sector, J.P. Morgan Double Materiality mapping](#) has shown that this topic is not only gaining importance from an impact perspective, but also is seen as increasingly financially material. Consumers are becoming more environmentally conscious, and regulators are expected to take a tougher stance to price in the "negative" externalities of unrecyclable waste. **In this context, we hosted a panel with Wim Van Hyfte**, Global Head of ESG Investments & Research, Candriam; **Martijn Lopes Cardozo**, Chief Executive Officer, Circle Economy; **and Dr. Patrick Gloeckner**, Head of Global Circular Plastics Program, Division Specialty Additives, Evonik **to explain how the circular economy can be an investment theme, and what additional efforts are needed to close the "circularity gap". We discuss the key takeaways below:**

Circularity can deliver significant co-benefits: Our world today is only [8.6% circular](#) (down from 9.1% two years ago), leaving a massive circularity gap. By applying circular strategies, other co-benefits are likely to be delivered. Panelists highlighted that climate change ambitions are impossible to achieve without circularity. Doubling the circularity to about 17% could help keep global temperature rises well below 2-degrees. However, while Net Zero targets are the "new normal", circular economy targets represent the next frontier.

B2C companies may drive change: According to panelists, B2C companies (retailers, brand owners, etc.) adopting ambitious sustainability strategies are likely to drive the transition to circularity in their value chain, especially as there are signs that some of them are willing to pay a premium for recycled materials. Investors engaging on sustainability can also be a driver of change. Smart, stable and predictable regulations providing visibility on targets are needed to drive change.

Innovation in business model needed: Transitioning to circular business models requires a complete transformation of both upstream and downstream parts of the value chain. An ecosystem approach where companies engage with several parts of their value chain is required. As a starting point, organizations need to establish a baseline, define KPI, set targets and establish action plan to deliver on those targets.

An opportunity for specialty chemicals: Companies from the chemical industry will have the ability to re-employ existing technologies as part of "cross-industries" innovation schemes. Potential business opportunities are likely to be more services driven.

Complementarity between chemical & mechanical recycling: Different waste streams will require a different mix of technologies. Packaging waste, mix plastic waste cannot be recycled mechanically. These waste streams will require chemical recycling as a complement. Engineers are working on making these solutions more economically efficient. Within the next 5 to 6 years, companies are likely to update their production processes using chemical recycling.

Value to be uncovered: While the circular business model can deliver co-benefits from a Climate mitigation perspective, compared to the "Climate change" investment theme, the valuation premium for circularity is less pronounced, due to its complexity. Finding climate oriented stocks is easy due to better disclosures and standardized metrics (high emitters, enablers, etc). On the contrary, picking circular

economy focused stocks requires an understanding of companies' environmental impacts over their value chain, both upstream and downstream, and there are no "pure plays". Investors need to be looking for "transformers", i.e. companies which are engaging with their value chain to address circularity. This implies looking at different metrics across sectors, implying a need to engage with companies to access them.

AI and ESG (Panel)

A brief introduction from the panelists.

Participants:

Dan Joldzic, President, Alexandria Technology

Niall Hurley, Chief Executive Officer, Eagle Alpha

Pooja Khosla, PHD, Vice President, Client Development, Entelligent

Moderated by:

Khuram Chaudhry, Head of European Quantitative Strategy Research, J.P. Morgan

Artificial Intelligence is generally described as the new electricity. Availability of new datasets, improved methods of analysis and increased computing power have enabled it to be pushed to the forefront.

Dan: Alexandria turns text to data. They use NLP/machine learning to scan different documents, to identify things like entities, topics, sentiments. They've structured and standardized the dataset and deliver that out to end users to try to extract information from the text.

Pooja: Intelligent is a company which try to convert science-based global circulation models and integrated resource assessment climate models in terms of actionable data, going beyond what companies are saying and measuring them more on action.

Niall: Eagle Alpha sit between hundreds of data companies and act as an aggregator. They're an intermediary between the supply side of the marketplace and a growing number of data buyers, which include hedge fund institutions, private equity, corporates, and even governments now.

ESG performed very well during the initial stages of the pandemic – why and what have we learned from it?

Dan: It depends on whether 'E', 'S' or 'G' is looked at. The beginning half of the year there was a lot of interest in ESG, and then with a large drawdown in March people reprioritized. 'E' continued to perform well in the second half, but 'S' and 'G' not so much. 'S' is more tech focused and suffered with the sell-off. 'E' continued to perform well so far this year.

A distinction between 'E', 'S' and 'G' historically is that 'E' has been a dominant strategy. Thoughts on the environmental aspects of performance.

Pooja: Pandemic was a natural experiment to see when if traditional fields, such as oil, coal, and gas are shocked, how economy will look like. With net zero alignments/Paris targets, carbon tax will come into the picture, subsidies will be given to renewables and there will be higher energy efficiency. This will distort the prices of oil/gas/coal. Last year, when the world was quarantining, the equity prices related to these sectors went down instantly. Greener policies could bend the climate curve and attack the prices of those sectors instantly, and not take months/years to go down. The natural experiment proved the theory.

Given the variety of data providers, has there been a preference from the end investor with regard to how the last 12 months have moved? Has the pandemic been a watershed moment for ESG?

Niall: Pandemic not a watershed moment. The last 12 months accelerated the trends that were already in place prior to the pandemic. People are evolving their usage of ESG-related data from beyond scoring systems and moving into individual data sets/raw data to supplement those scoring systems. Usage of data moved beyond public equities into areas like fixed income and private equity. Other factors like the Business Roundtable in the US in summer 2019 shifting the definition of the

corporate charter, the direction of travel on regulation, particularly in Europe, has been a significant catalyst.

Dan: Argues it has not been a watershed moment. January/February 2020 saw a lot of interest in ESG. COVID downturn made the next few months quiet. Alpha seeking funds shifted to more natural alpha seeking data sets, prioritizing more on factors/data points what could protect against drawdowns. Interest in ESG reignited at the end of 2020 after things stabilized.

ESG has generally been heavily weighted to disclosure data. In terms of broadening data sets, is there a move away from more disclosure to accessing sentiment behavior in the data that you look at?

Dan: Company disclosures tend to skew toward positive. Strictly looking at disclosures hurts performance. Better to ignore a company flashy press release and focusing on independent content – the publishers that are not paid to endorse a company.

Pooja: Significantly more of the S&P 500 companies are disclosing, but the quality of disclosure is not at the standard of SASB/TCFD. Companies are understanding the disclosure requirement in their own way. Independent third-party evaluators are needed to measure them in the same scale, so it is comparable across sectors, asset classes and regions.

Niall: The work by MIT on "*Aggregate Confusion*" is essential. The correlation between S&P and Moody's credit ratings being 99 percent. Yet, ESG frameworks, depending on which component, correlation could be down to 30 or 40 percent. There's no consistency of measurement, which is not beneficial for the capital allocator, provider of the data or the underlying corporates. It's problematic to private companies as well since much environmental factors come out of the privately owned sector and supply chain and industry.

How is that data being transformed into a signal? Is it high and low scores, momentum or some proprietary inside?

Niall: Advanced users of data, particularly Quants, tend not to gravitate towards signals. They prefer to get the underlying data and arrive at their own conclusion through their alpha testing. There's also a large part of the market that does need a signal or a score, but the consistency of scoring and coverage at a global level remains an issue.

What are the benefits of using alternative data and machine learning methods, particularly in regard to ESG?

Pooja: Don't think of it as a crystal ball as these data are not looking into fundamentals going into company's balance sheet, but vendors have their own algorithm to produce scores. The signals work for large numbers, at portfolio level, at index level. They have a high confidence interval. They might be outliers, but when you apply this data for screening processes, portfolio tilting processes, reweighting processes, longs and shorts, and even for randomized experiments for picking up companies, you will see that this data has alpha properties. Look into that data more from an application purposes

Are there particular methods that are more appealing from a machine learning perspective to use?

Dan: When it comes to machine learning, there's always the tradeoff between model complexity and transparency. You can have a simple model that is easier to audit and try to understand features, and then as you get down into the deep learning space, it becomes harder to fully understand the features that are being used by the deep learning system overall. One of the things that we do first before even looking at sentiment or topics or even entities is modeling the language itself. Then you can start applying it to different decisions overall. You can use things like Bert and deep learning methods that are harder to understand but do have very good performance if you have a large number of annotations, a large number of labels overall. We still look or use a lot of traditional machine learning methods because performance is actually in some cases better than deep learning. There's the control that you have on your feature settings.

To conclude there, how are you using machine learning in the investment process? To enhance strategies?

Dan: For the most part it's alpha generation overall. Don't create signals, but structure text in a standardized format and use machine learning in pursuit of that. We deliver that information to end users and they can build some sort of signal off of the data. It's more like data cleanup than signal generation. Machine learning on text can help in timeliness of information. If you're getting from one of the big data providers of ESG, that's going to probably be a bit delayed. We take big data, messy data, cleaning it up, structuring it, delivering it to end users which does have alpha.

Niall: There are firms that have very advanced machine learning, quant systematic approaches that are working with this data, but they are not advertising themselves as an ESG firm or using it as a branding or marketing exercise. There's a large part of the market that is at the other end, where ESG is an important part of their marketing and their asset gathering. However, the underlying data techniques and their approach to working the data are significantly different from behind the former group. Over the next two years, there's going to have to be convergence between the two, because the direction of travel and regulation will not allow you to promote yourself as ESG without investing in your underlying data processes.

Regulation, legislation, accounting standards, they seem to be evolving all the time. Are there any advances that you think are particularly useful with regard to data sets you're looking at?

Pooja: There is a lot of force in getting reporting, especially like climate scenario analysis, carbon reductions. TCFD metrics are coming up to see and do this climate scenario analysis and how to report carbon trajectories, carbon reductions. This will continue to gain more momentum. We need data standardization, but also diversity in data. We love monopolistic competition market, where we want things that align with our themes the most. In this diversity, the investors should also allow the benefits of monopolistic competition market, where they are investing, they are reporting as per the standards, but they are using the data that matches their investing style the most

Exploring the concept of implementation and construction, are there any common hurdles that ESG value managers need to overcome?

Niall: Working with institutions that are on the adoption curve for data and implementing data in some research processes. There's a lot of common challenges, but ESG-related regulation has been a catalyst for a lot of firms. Data companies are becoming more advanced and understanding buyer requirements. Their delivery methods are becoming more enhanced. There's a lot more third-party providers that can help you bring data to insight or to dashboard if you don't have machine learning and quantitative techniques. The cost of data can be high. Don't make these changes on the three to six-month view. If you want to make a meaningful change in terms of using new data sources and new data techniques within your firm, you have to be thinking one to two years to effect change.

Dan: There's a lot of data providers entering the ESG space. The crowding of this space becomes a challenge in itself for any end user. There are always things you could check when it comes to those end users, as well. Is there transparency? How deep is the history? These are things that you can ask providers and test before making a decision. In the ESG space, you have companies like MSCI that really dominate the space.

The philosophy of shorting ESG seems inconsistent with some of the value-based criteria. How do you think investors should think about the ability of shorting ideas in the ESG space?

Pooja: For 'E', you can short companies who have high exposures to climate change risk, and play long on companies that are more aligned to the climate targets. But looking into 'S' and 'G', it is very tricky. Data has to be analyzed with more agility, more small-time frequencies. The time of action really, really matters. We are mastering the data production, but now we have to move a step further and master the data application. There are concerns over budgets, but a lot of data is additive. They work great together, giving more fitness in investment.

Niall: We don't need to add an extra unit of capital to Google or Apple because it's screens well on ESG. It's got favorable dynamics as a tech and a new industry. What would be more beneficial is a fund sees value in Exxon or Royal Dutch Shell or British Petroleum, but it says to those businesses, we want to allocate to this sector, but we're going to put conditions around that capital if you can evidence to us that you're going to make changes. I would argue for an environmental Exxon or Royal Dutch can do a lot more to impact on the ground what's happening with environmental than Google or Apple. Additionally, companies that are unethical or don't treat their employees well, can lead to deterioration of company's revenue and performance.

Dan: The shorts where you see the biggest benefit is on 'E' overall. 'S' and 'G' are the opposite – worked from 2000 to 2009 but not 2010 onwards. There's more of a benefit for a fundamental manager to say, I don't necessarily want to look at the past track record. Back in the early 2000s, you would avoid defense companies and tobacco, but that was a negative contributor to return. Going forward as a fundamental manager, you can say, yeah, this is a new regime. I'm going to think about this data differently and apply it on a go-forward basis because the environment market dynamics will be changing overall.

In the experience of the audience member, there has been very little substantial value in looking at alternative data services. Do you have any examples of alternative data adding value versus company press releases? Does it differ in context of ESG?

Dan: For alternative data in Alpha seeking capacities, there's no question. There's value there. We scan a lot of different types of documents news but it has a very short shelf life. The decay is one week and you can probably stretch it to about a month, but that doesn't fit well with a lot of turnover constraints that strategies might have. If you look at something like earnings calls, that captures significant post earnings announcement drift. On the ESG side of things, you find that the Alpha contribution is light, but there is a contribution. The future will look different from the past. 'E' certainly has Alpha for the last four to five years. S and G are bit more challenged.

Conclusion:

The world of ESG is evolving with new data sets. There are many data that are moving away from disclosure to behavior and intention. There are opportunities to exploit. It's just that the volume of that data often needs automation. AI and ESG looks like a marriage that may continue for a long time.

Measuring the social contribution to the UN's Sustainable Development Goals (Panel)

Participants:

Camilla Sylvest, EVP Commercial Strategy & Corporate Communication, Novo Nordisk

Ingrid Kukuljan, Head of Impact & Sustainability, Federated Hermes

Laure Villepelet, Head of ESG & CSR, Tikehau

Moderated by:

Hugo Dubourg, Co-Head of ESG & Sustainability Research, J.P. Morgan

Since their creation in 2015 the Sustainable Development Goals (SDGs) have become increasingly viewed by both corporates and investors as a framework to measure their contribution to sustainability, in terms of environment & social impact. In fact, the main difference between the SDGs and their predecessors the Millennium Development Goals, has been the choice to include and engage the private sector to contribute and therefore broaden its scope beyond governmental & international contributions. Among the 17 SDGs, social goals are both numerous and ambitious: No poverty, Zero Hunger, Good health & well-being, Gender equality or Reduced inequalities. Reaching the SDGs by 2030 represents a tremendous challenge, which relates to multiple issues, including identifying the best levers of action for companies and investors, but also measuring the contributions made, which suppose significant methodological developments.

The fundamental question therefore remains: how can stakeholders maximize their positive impact while minimizing their negative impacts. In this context, we hosted a panel with Camilla Sylvest, EVP Commercial Strategy & Corporate Communication, Novo Nordisk; Ingrid Kukuljan, Head of Impact & Sustainability, Federated Hermes; and Laure Villepelet, Head of ESG & CSR, Tikehau Capital to provide concrete input regarding the quantification of this impact.

Impact is the future of investing: Our investor panelists believe that impact investing is the future of investing due to two reasons – 1) it takes into account all stakeholders; and 2) it gives investors the ability to quantify how their capital has contributed to positive change. It is very effective to be an impact investor in the public market because corporates are willing to promote the sustainability agenda to access the capital associated with it. Through SDG-focused investments, investors can not only incentivize companies that are advanced in terms of ESG to make progress on their agenda; but they can also foster the adoption of sustainability strategies by companies by engaging with them. Finally, regulation such as the EU SDFR promote the concept of impact through the notion of Principle Adverse Impacts.

Addressing impact: intention, additionality and measurement: Intention, additionality, and measurement represent the cornerstone of impact investing. Interestingly, the French Sustainable Investing Forum recently adopted this constraining definition of impact. Intentionality corresponds to the investor's desire to generate a measurable social or environmental benefit and thus contribute to sustainable development. Additionality, is the contribution of the investment to the impact. Impact measurement and, when a return on performance exists, the alignment of interests between the investment team and the subscribers.

COVID-19 has increased focus on the S in ESG: The COVID-19 pandemic has brought multiple social issues under the spotlight. Such as those of hygiene & sanitation, worker rights etc. Traditionally, there has been very little transparency from corporates on these issues, but the recent events have led to more stakeholder interest, which is in turn fostering the development of metrics to quantify these social issues. However, it will be important to promote a bottom-up approach (starting from employees) in addition to the traditional top-down approach (assessment of the board or management) to assess the performance. Workforce treatment and Diversity &

inclusion appear to be the two most visible topics because of the relative availability of data, while societal contribution is harder to grasp.

SDG mapping represents the first step for investors and companies: Companies have to map the SDGs where they can have the highest positive impact using their own expertise and business strategies, while looking for partnerships and collaborations to positively contribute in the areas in which they do not have expertise or direct influence. On the backbone of the SDGs, Novo Nordisk took a look at the 17 goals, and the 169 sub-goals of the SDGs to see, "Where can we have the biggest impact?". The two most significant areas of impact identified were Goal 3: Good Health & Well-being and Goal 12: sustainable production and consumption. Based on this, the company then formulated a social responsibility strategy but also an environmental strategy. The panelists noted that the impact is not sector neutral, and, that it is easier for certain sectors such as Healthcare to demonstrate a positive social contribution. Yet, this does not prevent them from seeking to maximize their impact through innovation and accessibility, while reducing their negative impacts, including through better ESG performance in their operations. Panelists highlighted the poor quality of the available data – including third-party – and the important work necessary to build an impact methodology.

SDG investing in listed equity: Federated Hermes has multiple SDG funds, including an impact opportunities fund, and an SDG engagement fund. The asset manager is engaged in various industry initiatives such as the Impact Management Project. In terms of methodology, the objective is to invest in companies via a combination of thematic and impact research where they seek to identify megatrends. Companies have to pass the impact assessment, the ESG assessment, the financial assessment, and valuation. Therefore, the businesses invested in are those that are providing innovative and sustainable solutions to the most critical needs in alignment with the UN SDGs. In terms of engagement, last year, the funds engaged with by Federated Hermes represented more than 70% of holdings, but less than 10% of that engagement was on the E. SDG funds holdings are therefore generally already well-advanced in that respect and most of the engagement is around the S and the G.

SDG investing in private equity and debt: Tikehau Capital asks investment teams to define an intention, basically solve a challenge, and then act as sparring partner with portfolio companies, hand-in-hand in private equity and private debt. Tikehau currently finances circa 250 companies across its private debt and private equity strategies. The idea is that the investment team themselves will discuss, where possible, the material topics with the portfolio companies such as, for example, diversity. When it comes to private debt, before structuring the deal, Tikehau engages with small and medium-sized companies and asks them whether they will be ready to commit to some ESG targets and add an ESG ratchet, a mechanism of adjustments of the interest rate according to certain non-financial targets negotiated with corporates.

Participants:

Miguel Silva Gonzalez, Senior Vice President & Treasurer, Ahold Delhaize

Ketish Pothalingam, EVP/Portfolio Manager & member of ESG team, PIMCO

Marcelo Feriozzi Bacci, Chief Financial & Investor Relations Officer, Suzano

Johannes Böhm, ESG Analyst, Union Investment Institutional

Moderated by:

Marilyn Ceci, Global Head of ESG DCM, J.P. Morgan

The Sustainability Linked Bonds Boom

As focus and demand for Sustainability-Linked Bonds increased from issuers and from investors alike, this session covered SLB issuer experiences and investor SLB preferences, covering topics such as bond design, selection of relevant, core and material KPIs and assessment of the ambition of a SLB. The panel was moderated by Marilyn Ceci, Global Head of ESG DCM (J.P. Morgan), with Miguel Silva Gonzalez (SVP & Treasurer, Ahold Delhaize), Ketish Pothalingam, EVP/PM & Member of the ESG team at PIMCO, Marcelo Feriozzi Bacci, CFO & IR at Suzano, and Johannes Böhm, ESG analyst at Union Investment.

SLB vs. Social and Green Bonds: Panelists highlighted the strong complementarity between Sustainability Linked bonds and other types of (use of proceeds linked) sustainable bonds, such as Green, Social or Sustainability Bonds. SLBs are seen as a tool which is better aligned with sectors in transition (e.g. industrial sectors) providing investors with the ability to quantify positive impact. For issuers, the question really comes back to the purpose behind the issuance: general strategy or specific project. Panelists were confident that all products would likely sit side-by-side for the years to come, as SLBs were a "logical evolution" responding to concerns around sector concentration and lack of green assets for Green bonds.

SLB – Investors' expectations on KPIs: Most investors have a proprietary framework to evaluate issuers ESG's credentials, as well as the ambitions / greenness of the Green, Social, Sustainability of Sustainability Linked Bonds. They highlighted that there is no "one size fits all" approach to assess issuers' ambitions. Among key criteria: 1) alignment with the company's strategy; 2) difference vs. status quo / BAU; 3) Measurability and quantification of KPIs & targets; 4) External verifications; 5) ability to compare to recognized benchmarks (e.g; SBTi, New Plastics Economy, Transition Pathway Initiatives), 6) importance of having medium term targets.

What about missing targets? With SLB, investors can be rewarded if the company fails to deliver on its targets (inc. its medium term targets, i.e. before the bond's maturity). Yet, as the market is in its infancy, there is currently no established practice on how this is best structured. Panelists expressed their preference for simplicity. Hence, a coupon step up is perceived as most simple, and also easier to integrate to the bond's valuation. Panelists noted that such a step-up would need to be meaningful, and ratings-dependent (e.g. differentiated between high-yield vs. IG), and specific to each company's circumstances.

Ahold Delhaize experience: Ahold Delhaize highlighted that the SLB it issued on March 11th was driven by two reasons: flexibility & alignment with internal needs. First, SLB offers an additional level of flexibility, as its performance based approach does not require to ring-fence capital allocation similar to Sustainability bonds (SB). As such, it's an additional tool which allows for a more comprehensive conversation on the company's ESG target. Second, the company highlighted that it was more aligned with its internal investment / capex cycle, and less compelling than SB from a reporting perspective, esp. as the company recently integrated its ESG reporting into its annual report. In terms of investors' feedback, the company highlighted the fact the investors appreciated that the step-up of the coupon (25bp) would be triggered if only one of the two targets was missed. Second, they highlighted that the choice of the issue (Food waste) in which they had set a KPI had been well received, and was considered as a material issue for the sector.

Suzano's experience: For its first SLB, the company indicated it wanted to use sustainability targets which were already part of its business strategy. In their view, this delivered three main benefits 1) **Financial:** better cost of financing; 2) **Reputational:** improved perceptions by stakeholders (e.g. clients); and 3) **Internal:** powerful driver for the 15 000 employees. Moreover, issuing a Sustainability Linked bonds was seen as more in line with their business models, esp. as previously issued green bonds – on reforestation projects - had been criticized by some investors as insufficiently additional (i.e. as reforestation was part of business-as-usual activities). The company highlighted that, beyond its activities, it remains committed to a Zero Deforestation target, and communicated publicly on deforestation to encourage the Brazilian government to do more on this front, and tackle law enforcement issues. Overall, the company highlighted that demand for their SLB was very high, both in the primary and secondary markets. This provided the company an opportunity to tap-in, taking advantage of the fact that global interests rates had gone down in the meantime.

Participants:

Ashley Schulten, Head of ESG
Investment, Global Fixed Income,
BlackRock

Yo Takatsuki, Head of Investment
Stewardship EMEA, J.P Morgan
Asset Management

Susana Meseguer, Director of
Finance, Repsol

Professor Simon Dietz, Transition
Pathway Initiative

Moderated by:

Paul O'Connor, Head of ESG Debt
Capital Markets for EMEA, J.P.
Morgan

Climate Transition Finance (Panel)

As recognition builds of the need for certain high-carbon-emitting sectors in the economy to transition to lower-carbon business models in order to achieve the goals of the Paris Agreement on Climate Change, this session covered some of the recent market initiatives intended to facilitate the flow of finance to sectors needing to make these 'lower-carbon transition' journeys, and discuss some of the challenges which are being addressed.

The future is not written: Panelists highlighted that multiple scenarios exist, such as the IEA's Sustainable Development Scenario, which are used to inform the corporate scenarios. This lack of consensus on the actual path and pace of the transition brings by definition a lot of complexity to transition finance. These scenarios are often updated, potentially bringing adjustments about Repsol's projections for its upstream business for example. Once a scenario is defined, the question is how to monitor the progress in this decarbonization pathway.

Climate & Sustainability are an exception because of collaboration.

Collaborative initiatives, some formal like the Climate Action 100+ and others more on an ad hoc basis, have been one of the features of the rise of sustainability investments over the past 10 years. Collaboration between a large collection of investors, but also more recently asset owners, as well as companies themselves. Cross-industry working groups emerged that are essentially starting to really tackle what dealing with climate change means within the context of the entire capital markets.

The direction is right but the pace may not be enough: While panelists saluted the numbers of initiatives and commitments, TPI stressed that, despite an arguably strong momentum on climate commitments, we were not on the necessary pace to align with the Paris Agreement. TPI highlighted that over the last four years things have been moving really slowly in terms of, first of all, companies implementing the range of management practices that they would expect to see to really treat climate change as a strategic issue. Progress is also slow in terms of emissions reductions and targets to align with the Paris Agreement goals.

A framework has to be designed and implemented: Defining a scenario is the first building block of transitioning. Associated short, medium and long-term targets have to be designed to give credibility. Repsol set a goal of net-zero emissions by 2050, but also a reduction of 12% by 2025, 25% by 2030, and 50% in 2040. In order to achieve these targets, Repsol modified its executive remuneration policies, to include decarbonization objectives up to 25 percent of the CEO's annual variable remuneration and also up to 40 percent of the long-term incentive program applicable to all management personnel including the CEO. Finally, the company also developed its own analysis methodology to measure whether every proposal for investment is aligned or not and compatible with the company's decarbonization roadmap.

Policy support has to be adapted: Repsol argued that policies should guarantee the financial support for the R&D programs and scale up of promising technologies and also to avoid deterministic approaches. The concept of technology neutrality is crucial for the company. In order for the transition to be inclusive, the company

argued that tools such as the European taxonomy need broad support and represent as of today a challenge for the industry.

Transition has to be assessed on a sector basis: There is limited value in comparing an oil-and-gas company's carbon intensity with a tech company's carbon intensity. Any portfolio management based around minimizing emissions per dollar of revenue which doesn't take this into account is just going to shift money out of heavy industry and energy and into the service sector. A sector-based approach is therefore essential for comparing like with like.

Data is still largely imperfect: TPI highlighted that, while confidence on emissions data is relatively trustworthy on an operational scope, for many industries, it's the wider value chain emissions that matter and these are very patchy. In addition, comparable and forward-looking data remains elusive: CapEx and data on innovation, to actually assess the path forward is what investors are looking for.

SAP- Diversity and Inclusion as a strategic objective (Keynote)

Participants:

Judith Williams, Head of People Sustainability & SVP, Chief Diversity & Inclusion Officer, SAP SE

The death of George Floyd and the following social movement in the United States and globally has highlighted the need for greater public and private action around racism and discrimination. Companies have rapidly announced new policies, measures and targets around diversity and inclusion to make sure that their organizations reflect the multi-cultural societies in which they operate. A few months ago, we commented on this trend in [Diversity & inclusion – From social to governance changes](#). In this context, we hosted Dr. Judith Williams, Head of People Sustainability & SVP, Chief Diversity & Inclusion Officer, SAP SE to highlight effective steps that can be taken to promote diversity and inclusion. We discuss the takeaways below:

SAP - Striving to be 'the most inclusive software company in the world': Our speaker believes that technology companies are building the future and it is therefore their responsibility to build an inclusive one. SAP, with 100,000 staff comprising 150 nationalities aims to be the most inclusive software company. When management presented this objective, one of SAP's Board member argued: "Why not strive to be the most inclusive company in the world?".

Inclusive culture are more likely to have higher financial performance. When it works, she said, employees' health improves, diversity of thought blossoms and ultimately the company's financial performance increases – in the US – Ethnic diversity shows a 10% correlation with financial performance. Diversity also helps multinational companies better engage with customers, a critical consideration for SAP, which has 400,000 clients in 180 countries.

There are multiple aspects of diversity and inclusion has to address them: There are two different aspects of diversity – inherent diversity (gender, race, culture, age) and acquired diversity (thoughts, beliefs, experience) and Dr. Judith believes that inherent diversity is the key to unlock acquired diversity. When talking about enhancing diversity in the workplace, it is important to consider all aspects of diversity ranging from gender, race, ethnicity, age, abilities etc. As for age, the aim should be to look for growth mindset and subject matter expertise, while giving value to knowledge and wisdom.

Diversity & inclusion is a global challenge requiring local adaptation. Company strategy and policies will have to adapt to local demographics and regulations, but a starting point could be having global policies and targets. In the US, companies are pushed to disclose workforce ethnic statistics while this is impossible in some countries such as France. Other types of diversity such as gender diversity do not suffer from these issues, and SAP's approach to people sustainability includes using data-driven decision-making to target gender parity in 10 years and ensuring women are interviewed for as broad an amount of roles as possible. SAP also has an 'autism at work' program to remove the barriers to opportunities and success for people with autism.

Culture is fundamental: Our speaker stressed the importance of culture, saying that the focus should be on the process and not the program. Opt-in training programs are often used by staff who actually need them the least. Embedding diversity and inclusion within the company, its mentorship programs and its supply chains is critical. It is important to have transparency within the company on how people decisions are made. Management should be accountable for their actions and should

also be rewarded for positive change. She also highlighted the importance of using data, having long-term and interim targets along with an action plan to bring about change. For example, industry data shows that women have disproportionately left the workforce since the beginning of the COVID-19 crisis, which reinforce the need to focus on ensuring gender diversity.

Future of Food: Are consumers preferences reflected in companies' numbers? (Panel)

Participants:

Robbie Miles, CFA, ACA, Vice President, Global Thematic Equity Portfolio Manager, Allianz Global Investors

Maria Lettini, Executive Director of the FAIRR Initiative

Juan Aguiriano, Group Head of Sustainability, Technology Ventures at Kerry Group

Moderated by:

Jean-Xavier Hecker, Co-Head of ESG & Sustainability Research, J.P. Morgan

Several academic researchers have evidenced that the current human diet needs to evolve to ensure that food production can be done in a sustainable manner ([see ESG Wire, 14/08/2020](#)). While this would help protect natural capital, while delivering positive impacts on consumer health, balancing sustainable practices with consumer preferences in terms of taste represents a key challenge for Food & Beverages companies. With both upside and downside risk, the future of food could also lead to significant new market opportunities. **In this panel, we hosted Robbie Miles**, CFA, ACA, Vice President, Global Thematic Equity Portfolio Manager, Allianz Global Investors, **Maria Lettini**, Executive Director of the FAIRR Initiative, and **Juan Aguiriano**, Group Head of Sustainability, Technology Ventures at Kerry Group to reflect on how they look at "the Future of Food". We discuss the key takeaways below:

Sustainability as a growth driver: Sustainable food products are significant growth drivers for the Industry, as consumers realize it's hard to live a healthy life on an unhealthy planet. [Research](#) from the Stern Institute of Sustainable business shows that sustainability marketed products were responsible for half of the growth in consumer packaged goods from 2015 to 2019. This trend accelerated in 2020.

Plant-based proteins are no longer niche: Our panelists highlighted the importance of plant-based food in transitioning to a more sustainable and resilient food system. Some of the most material ESG risks in the industry (such as deforestation, GHG emissions, working conditions etc.) result from animal agriculture. Plants have long been a sought-after source of food, but consumers increasingly are turning to plant-based products as substitutes for animal protein. Yet, the growth of sustainable products has come from smaller brands, medium brands and private label, while big brands have been losing share. However, panelists expect that to change. The alternative protein market was niche a few years ago but it is increasingly becoming mainstream, with a third of the companies reviewed by FAIRR sustainable protein index disclosing information about their alternative protein related positioning. Flexitarianism is the next big trend that companies are now willing to address.

Responsible marketing & labelling will lead to further segmentation: In addition to concerns around products' health impacts, Consumers are increasingly demanding transparency on where their food is coming from. There is an increased appetite for information not just on the nutrition content, but also the environmental footprint and social impact of the product from farm to fork. This has resulted in an increased focus on the supply-chains by companies. The link between environmental concerns and a growing awareness among the public is having an influence on what products are coming to market and what consumers are eating. While the transition to plant-based protein is real, panelists expect this market to become further segmented, as consumers will pay attention to holistic sustainability impacts (water, land use, etc).

Affordability is the main challenge to solve food poverty: Food poverty is not a question of food supply, it's a question of affordability. To alleviate the problem of food security, plant-based proteins, which typically are less resource intensive, can represent an opportunity. However, these options should be available at an affordable price.

A multi-dimensional investment theme: Investment themes around food security include sustainable agriculture, nutrition, and food supply-chain. Investors should be

considering emerging themes, such as vertical farming, precision agriculture, or data services helping to better track food sustainability impacts. There may be only small values in these niche markets today but there is potential for these markets to expand and push down price points with the support of regulations, innovation, and consumer preference.

Small-caps tend to present higher innovation potential: The opportunity lies in players providing solutions to increase efficiency and resiliency of the food system. In many cases, most innovative companies will be found in the small cap universe.

Ingredients companies are well positioned: Ingredients companies hold a lot of the catalytic potential to move towards sustainable nutrition. At Kerry, the company estimates that 80% of its portfolio has the potential to contribute to balanced and positive nutrition (less sugar, less trans fats). The new strategy, “Beyond the Horizon” will accelerate this to reach more consumers (from 1bn to 2bn consumers), and integrate other co-benefits (e.g. climate positive products based on regenerative agriculture and food waste minimization). For Ingredients companies, it’s important to have targets that are calculated on a product base. Positioning portfolios on Sustainable nutrition through R&D is about building a competitive position which will deliver ROI in the future.

Large food companies are moving, but too slowly: Developed market Food production companies are moving towards more transparency and disclosure. However, they move too slowly on critical health & environment issues, such as deforestation or antibiotic-resistance. Deforestation is a good example: only 2 of 50 companies assessed by the FAIRR have comprehensive policies addressing and mitigating deforestation across all the critical biomes (for a deep dive on deforestation see “[Grow, Forest, Grow](#)” 22/01/21). Regarding antibiotics, 70% of food producers are still ranked high risk on antibiotic usage.

A potential for offsets to finance nature based solutions? Currently the food and agriculture sector accounts for about 25% of the global GHG emissions but it has the potential of becoming a net carbon sink in the future through nature-based solutions and regenerative agriculture practices. These nature-based solutions are currently under-estimated and their marginal abatement cost not clearly established vs other low carbon technologies. Yet, one would first need to fix MRV & additionality measurement concerns in the offset market to turn this into a potential opportunity for farmers. See also: [ESG Wire, 23/10/2020](#)).

Economic pillar as important to sustainability as environmental and social: Our panelists reiterated the importance of having stable financial returns in addition to pursuing environmentally and socially beneficial activities. In order to push forward the sustainability agenda, it is crucial to have a strong economic pillar. There's been a shift in the perspective on acting in environmentally and socially conscious ways. Formerly companies thought that they could support environmentally and socially beneficial activities once they had the financial strength to do so. Now, the thinking is that practicing sustainable operations generates financial strength in its own right.

Day 2 - March 24th

Participants:

Khuram Chaudhry, Head of
European Quantitative Strategy
Research, J.P. Morgan

ESGQ and the 'Human Capital Factor' (Keynote)

In this Keynote, Khuram Chaudhry, head of EU Quantitative Strategy Research, highlighted the results from its latest research note on the "[Human Capital Factor](#)".

Summary: The Human Capital Factor (HCF) is built using HR employee survey responses from corporates, and web scrapping techniques from social media sites. The sector neutral back-test for the long HCF has yielded an excess return of +5.4%, a Sharpe Ratio of 1.0, and a maximum drawdown of 8.2%, since 2010. The long/short HCF results are equally impressive +5.6% annualized returns, and a Sharpe ratio of 0.8.

HCF Comparative Analysis with other ESG data the Human Capital Factor with 1) MSCI ESG -Social Pillar Scores, and 2) Arabesque's Social Pillar data. The implication is that the HCF is picking up behavioural trends specific to companies that are not readily available through other sources of data. It is a unique dataset.

Case-Study -HCF & Gender Equality. Gender alignment scores based on HCF suggest there is additional information in employee survey results that capture behaviour more readily than typical gender diversity ETFs or price indices. (Behaviour vs. Count Measures).

ESGQ - a quick reminder: The presenter begins by introducing the JPM ESGQ metric, which is a responsible way of picking stocks. It takes stable ESG data, faster moving variables based on NLP analysis of news-flow and NOG campaigns and ESG momentum.

Short term vulnerabilities but long term remains desirable: Performance of ESG stocks has been very strong over recent years, however over the past six months some of this performance has begun to unravel. For ESG stocks there are vulnerabilities on a few levels: 1) High Valuations, 2) Pillar data is changing, 3) Fundamentals. ESG strategies are subject to style biases, for example they typically have a substantial underweight in Value but a large positive tilt toward Quality, Momentum and Low Volatility. Valuations of current ESG screens currently appear to be elevated. High valuations are not necessarily an issue, however when these occur in conjunction with a changing earnings landscape, they can become an issue. ESG Short portfolios are seeing improving earnings. Additionally, sector biases inherent in ESG strategies overweight technology and underweight oil and energy. The market is beginning to question this as bond yields rise. To summarize ESG stocks current situation: There are clear short term vulnerabilities, but long term they remain desirable.

The Human Capital Factor: HCF is a new ESG metric which is rooted in the often neglected social pillar. The Human Capital Factor (HCF) is built using US public and private data sources, which utilize HR employee survey responses from corporates, and web scrapping techniques from social media sites. Scores from both private and public sources are blended to form the Human Capital Factor. The data is provided by Irrational Capital, a corporate culture focused data provider.

What is human capital? Human capital is an intangible asset which is not fully captured by the company's balance sheet. The intangible nature of this asset is

frequently why it is overlooked, yet extremely vital for a company's long term existence. It encapsulates an organization's ability to create economic value derived from its unique combination of its habits, knowledge, talent, motivation, experience & attributes.

What's HCF made of? The Human Capital Factor focuses on topics that include company culture, attitudes in the workplace, relationships with one's manager, benefits and compensation, perception of company leadership, perception of company core values etc. Highlighting some of the inputs into the HCF, the data show that developments of the Manager & Senior Leadership input over time indicates an improvement for most GICS sectors. In contrast the Compensation Fairness – Benefits Score input, which includes core benefits, retirement plans, health care and volunteering opportunities, has seen a more muted progression.

From a macro perspective, when aggregated the HCF shows a strong improvement over time. When compared to GDP growth, the aggregated HCF exhibits a similar profile, with the exception of 2020 where GDP collapses. But in general historical peaks and troughs have coincided. Similarly, there appears to be co-movement between the aggregate HCF and the US ISM Services.

The backtest for a sector-neutral top/ bottom 30 stocks within the MSCI USA reveals strong performance for both long and long-short strategies. Over a period from Dec '09 to Jan '21, the long strategy delivers an annualized excess return of 5.4%, a Sharpe Ratio of 1.0 and a maximum drawdown of -8.2%. Long-Short results are equally positive, with an annualized return of 5.6%, a Sharpe Ratio of 0.8 and a maximum drawdown of -11.8%. The bulk of the returns appears to be coming from the long leg.

The backtest results aggregated by calendar year reveal that the HCF outperforms the benchmark in all but one year (2011). Further, Aggregated historical sector allocations highlight an overweight in Consumer Discretionary stocks and an underweight in Energy.

A high value bias. In terms of characteristics of the HCF, broken down by quintile, the two highest quintiles exhibit a strong valuation premium compared to the lower three quintiles, indicating a high Value bias for the HCF. Similarly, the top two quintiles reveal higher average market capitalization than the bottom three. Aggregated style scores by detail a significant negative Value bias for the HCF top quintile.

Superior performance metrics vs. MSCI & Sustainalytics ESG Scores: When compared to traditional, disclosure based ESG data, such as MSCI and Sustainalytics ESG scores, the HCF exhibits superior performance metrics, suggesting it is capturing information not present in the traditional ESG data. Similarly, contrasting the HCF with ESG news-flow / sentiment based data, such as Arabesque S-Ray, the HCF again delivers superior performance compared to the backtests based on the social pillar themes of the news-flow based data.

Gender Equality: a case study. A case study on gender equality using the HCF, compares the HCF gender alignment score, which centers on the differences between male and female survey responses, to more frequently used measures of corporate gender equality, such as percentage of women on boards and number of female executives. Scatter plots reveal that there is no increase in gender alignment, as

female representation in the upper echelons increases. The comparison between performances of these two approaches indicates that the HCF gender alignment offers superior returns compared to strategies based on these traditional gender equality proxies. This suggests that these simple counting measures may do a subpar job of capturing an origination's true diversity.

About Compensation fairness: An analysis of the Gender Alignment – Compensation Fairness (Benefits) score across GICS sectors highlights, that whilst some improvements have been made over the past years, there is still work to be done. Some sectors, such as Materials, Financials, Consumer Discretionary and Information Technology have shown marked improvements, whilst Energy and Utilities have shown a drop in gender alignment.

HCF vs. Style factors: Finally, comparing the HCF to traditional style factors, the HCF exhibits superior results relative to the style performances across all metrics, higher returns, lower volatility, higher Sharpe Ratio, higher hit-rate and lower maximum drawdown. Correlations analysis between the HCF and styles reveal strong negative correlation with Value, whereas Momentum, Quality and Risk are close to the zero level. Forming combinations between the HCF and style factors improves the performance for all styles

Green Bonds: “Behind the Green Curtain” (Panel)

Participants:

Jane Pilcher, Group Treasurer,
Anglian Water

Sean Kidney, Co-Founder & Chief
Executive Officer, Climate Bonds
Initiative

Julian Baker, Head of Sovereign,
Supras, Agency Trading, J.P.
Morgan

Jeffrey Kaczmariski, Portfolio
Manager, EM Corporate Debt
CEEMEA, Stone Harbour

Moderated by:

Jarrad Linzie, Head of Index
Research Product Development,
J.P. Morgan

Strong demand for green instruments from investors

The panel noted that demand for green bonds is arising not just from ESG-dedicated investors but also from active investors managing non-dedicated ESG funds. Even as the green bond asset class approaches \$1.5 trillion in size, Sean Kidney (CEO, Climate Bonds Initiative) remarked that there was sufficient demand from investors and asset owners to absorb another \$1 trillion in issuance. A consequence of this rapid growth is that investors don't have the capacity to evaluate the use of proceeds for bonds, but instead focus on the issuer's overall green framework and rely on Second Party Opinion (SPO) providers for the project-level verification.

From an issuer's perspective, Anglian Water mentioned that all their fixed income instruments issued since 2017 were green bonds. And while that may not always be the case going forward, they would certainly look at the green bond option for eligible projects. According to the company, back in 2017 only a few ESG focused investors were curious about the company's green framework while today two-thirds of the conversation with all investors touch upon green activities rather than the credit profile of the company.

Greenium is not a myth, and here to stay

In the corporate space, research suggests that green instruments have an average premium (greenium) of approximately 7bps for corporate bonds when compared to similar non-green instruments. On the sovereign side, the average greenium is lower at approximately 3bps. This is apparent with Germany's EUR denominated green bonds which trade at a premium to the simultaneously issued non-green instrument with exactly the same risk profile.

The panel noted that government regulations are likely to result in greeniums being a staple of the green bond asset class. Actions such as the European Central Bank (ECB) favouring green bonds in their asset purchase programs, designating Sustainability Linked Bonds as eligible collateral, or Hungary permitting lower risk weights for green financing, will ensure that the premium associated with green bonds is likely to survive.

Transparency and KPIs are key for growth of sustainable labelled bond market

Investors on the panel reiterated that transparency by issuers will be key to encourage them to allocate more to the asset class. For now, investors still find it very difficult to quantify the GHG emissions for eligible green projects. From an issuer's perspective, producing and measuring additional KPIs involves revamping internal systems and, at times, even the corporate culture. All of which takes time, if done right. For that reason, investors find Sustainability Linked Bonds (SLBs) intriguing given the quantitative metrics attached to these structures. Investors on the panel believed that SLBs will definitely play a larger role in the sustainable labelled bond asset class. Investors did caution that penalty clauses embedded in SLBs should not jeopardize projects that are meant to socially/environmentally uplift certain regions or groups of people.

Saint Gobain – “Sustainability as a product characteristic” (Fireside chat)

Participants:

Pierre-André de Chalendar, CEO,
Saint-Gobain

Emmanuel Normant, VP for
Sustainable Development, Saint-
Gobain

Moderated by:

Elodie Rall, Head of EMEA
Construction, Building Materials
and Infrastructure, J.P. Morgan

Jean-Xavier Hecker, Co-Head of
ESG & Sustainability research,
EMEA Equity Research, J.P.
Morgan

Saint-Gobain, CEO, Pierre-André de Chalendar, and Emmanuel Normant, Vice President for Sustainable Investment, hosted a keynote today at our Global ESG Conference on the topic of ‘Sustainability as a product characteristic’. Overall, the presentation centered on what the company views as the drivers of its products, circular economy as well as the ability of the company to recycle materials and educate its customers to drive demand for more sustainable products.

Product Drivers. The CEO stated that he believed that when the pandemic first emerged, there were question marks that green initiatives would stop and lose focus, however the opposite is what we have seen. He stated that the pandemic has shown there is a strong link between health, environment and the planet and therefore the driving force of its products has been public opinion. The CEO also noted that the strong push from Governments has also helped, such as the EU Renovation Wave, and there are good signs that the US is moving progressively to where the EU is.

Circular Economy. The company is trying to provide solutions that make deconstruction easier with the CEO noting that Buildings will become the materials banks of the future. The company also has a significant amount of outlets which have a facility where they offer customers option to bring back materials when they work on site.

Carbon Emissions Abatement. The company stated that its Flat Glass business is the business that is perhaps most hard to abate carbon emissions. This is due to the use of natural gas and therefore the solution is to move to non-fossil fuels, however the technical solutions do not yet exist. Furthermore, the CEO noted that electrification will be a solution for a lot of things in the future. In France, electricity is low carbon, hence it is easier there. And this is also why in Germany it is presently difficult because electricity there emits a lot of carbon.

Sand Scarcity/Recycled Glass. The company noted most of sand extracted goes into two type of applications – concrete and reclaiming of land. However, the sand that Saint-Gobain uses is very specific and therefore the company does not foresee any problems of scarcity. Furthermore, the company noted that the glass it uses is recyclable and therefore it can use a significant content of recycled glass for its products. The company note that whilst it can use recycled glass from pharmaceutical applications, the quantities are not enough for what they need in its Flat Glass operations.

Pricing Premium. The CEO noted that when the company has a next-generation product, it normally does command a price premium via the innovation. However, these are not easily to calculate. The company did note more generally that with regards to some insulation/buyer-sourced products, those that are seen as better are more expensive.

Responsible Labelling. The company sets out that one of its targets is to have life-cycle analysis across all its products for customers to make an informed choices. It will bring transparency around sustainability which would drive demand for more sustainable products.

Key KPIs. The CEO mentioned that of the key KPIs related to sustainability, he believes that investors should focus on the tonnage of virgin material avoided as well as the tonnage of CO2 avoided.

Environmental Capex. On the stated budget of c€100m p.a. until 2030, the company stated that some of the capex will go to reducing energy consumption through better management/data, and bigger amounts of capex will go towards change the process and initiatives such as CCS.

Fixed Income Sustainable Investing – ESG's Next Frontier (Panel)

Participants:

Shamaila Khan, Head of Emerging Market Debt Strategies, AllianceBernstein

Simon Cooke, Portfolio Manager, Insight Investment

Rupert Rink, ESG Index Research Analyst, J.P. Morgan

Moderated by:

Gloria Kim, Global Head of Index Research, J.P. Morgan

When it comes to integrating sustainability, traditional fixed income markets have often been thought of as the forgotten asset class. However, sustainable investing is just as important for bond investors as equity, particularly in the context of downside risk. The panel discussed the integration of ESG factors into fixed income investing, with a focus on similarities and differences from ESG approaches in equities.

ESG investing in the fixed income space is becoming more sophisticated.

Integrating ESG factors into fixed income portfolios is not as clear-cut as in equity portfolios as the asset class is inherently more complex. There is no one-size-fits-all approach across the fixed income universe, given the diverse spectrum of debt instruments, issuers, sizes, and maturities. To that end, the panel noted the importance of taking a multi-dimensional approach to ESG investing, considering other investment strategies beyond just negative screening and assessing sustainability characteristics not just at the issuer level but also at the instrument level. Simply just screening out low ESG-scored issuers has resulted in lower diversification and suboptimal returns, especially in emerging market portfolios.

Last year's strong performance of fixed income ESG funds dispelled the ESG underperformance myth. Success of a multi-layered approach has been well demonstrated by the J.P. Morgan ESG Index Suite (JESG), which incorporates several ESG investment strategies into one unified methodology. JESG indices have proved their resiliency in times of crisis, outperforming baseline indices by ~50bp on average and increasing AUM by \$7bn to reach \$20bn during the COVID-19 pandemic while holding substantially greater ESG qualities than baseline indices.

ESG data consumption comes with challenges. While coverage and comparability of fixed income ESG data have improved significantly over the past few years, it is still notably more difficult to find exhaustive ESG data for corporate issuers in fixed income compared to equities. The coverage remains low for issuers outside of the DM IG universe, especially for private companies whose ESG data is inherently more scarce compared to their listed counterparts. Challenges also remain for sovereign issuers, who make up more than 50% of the global debt stock, since sovereign data is largely lagged and updated less frequently compared to corporate issuers. Instead of relying fully on third-party resources, the panelists are optimizing data from external vendors to eliminate biases and incorporate forward looking views given ESG data is backward-looking by nature.

Sovereign issuers require a more tailored approach. Applying the same ESG framework in the corporate world that rewards best-in-class ESG performance has resulted in a conundrum for sovereign issuers as low-income countries that are positioned to benefit the most from sustainable developments are getting the least opportunities to access necessary funding. This 'income bias' can be addressed by adjusting for countries' wealth/income or incorporating a more forward-looking approach to ESG analysis. The panel also highlighted the need for more targeted and continuous engagement with sovereign issuers, particularly with their Debt Management Offices. Integrating a Double Materiality framework is also important given the pace and impact of sustainable developments at the sovereign level.

Ongoing regulatory developments are expected to bring more standardization.

In particular, the panel noted EU's Action Plan on Financing Sustainable Growth related to sustainable benchmarks has potential to significantly reshape ESG reporting not just in Europe but around the world.

Measuring Environmental Impacts: Insights from Kering's EP&L (Live Demo)

Participants:

Michael Beutler, Sustainability
Operations Director, Kering

Moderated by:

Chiara Battistini, Head of European
Luxury & Sporting Goods, Equity
Research, J.P. Morgan

Jean-Xavier Hecker, Co-Head of
ESG & Sustainability Research,
J.P. Morgan

Kering, Sustainability Operations Director, Michael Beutler hosted a keynote at our Global ESG Conference on the topic of 'Measuring environmental impacts - Insights from Kering's EP&L' and provided a live demo of the Group's Environmental P&L.

It's not just about the P, it's also about ESG: Within the luxury sector, Kering is possibly one of the most vocal and active players when it comes to ESG efforts and driving a strategic agenda that expands beyond profits. Kering is particularly focused on its environmental impact, aiming for an ambitious target to be "nature positive" by 2025. In this context, Kering has developed a Materials innovation lab for its soft luxury brands and a Sustainable innovation lab for hard luxury *maisons*. Thanks to its ongoing efforts on ESG, Kering has been consistently awarded recognition for leading this important agenda in the sector, and more broadly in the wider fashion industry, including ranking first (vs the 15 biggest fashion companies across luxury, high street and sportswear) in the new Business of Fashion Sustainability Index published just last week.

2025 Roadmap: Care, Collaborate and Create: Kering outlined a 2025 ESG roadmap via a three-part approach that embodies 1) Care (about impact on the planet, on climate change and on natural resources) with an aim to have -40% EP&L, -50% CO2 (science based target), 100% raw material traceability, turn 'nature positive' by 2025 by regenerating and protecting an area about six times Kering's total land footprint across the full supply chain; 2) Collaborate (for the good of employees, suppliers and clients) to preserve the industry's heritage, pursue diversity and standing out as one of the preferred employers in the sector and 3) Create (innovations to ensure the planet, the luxury industry and Kering brands can thrive for the long run).

A few key progress metrics/initiatives Kering flagged in the presentation include:

- Care: 29% reduction in environmental footprint (EP&L intensity 2015-19); 91% traceability of key raw materials (an areas in our view where the sector needs to largely improve still); biodiversity commitment to protect 2 million hectares; fashion pact commitments (its 3 pillars being climate, biodiversity and oceans);
- Collaborate: 55% women managers in the group; D&I committee in each *maison* with Management committee sponsors; strong efforts towards COVID-19 relief; anti-domestic violence policy;
- Create: new collections from recycled or sustainably sources materials (Gucci Off The Grid, Balenciaga Archetypes); adherence to the "Vision of a circular economy for fashion" of the Ellen MacArthur Foundation.

EP&L: The Journey and Impact: Conceptualised in 2011, by 2015 Kering's EP&L covered all the Group's brands and started to disclose progress against the 2025 targets by 2025. The EP&L tool brings sustainability and finance together by pricing the environmental footprint and enables users to view the impact by materials, business unit, tier of supply chain, type of impact, etc. Key areas assessed by Kering's EP&L are air pollution, greenhouse gas emissions, land use, waste, water consumption and water pollution along the entire supply chain. These impacts are converted into monetary values to quantify the use of natural resources so that Kering can this way identify where the biggest environmental impact stems from (in

the case of Kering, unsurprisingly, 92% of the impacts lie with the supply chain, of which 65% related to raw materials or 76% linked to raw material (production & processing) and notably linked to the sourcing of leather). Based on these outcomes, Kering can adjust and improve its processes and supply sources to constantly drive progress towards its 2025 targets and notably 40% reduction in EP&L intensity by 2025 (vs. 29% already achieved between 2015 and 2019). Interestingly, Kering noted that the ongoing learnings from the EP&L are incorporated into discussions with both the creative and sourcing teams to adjust collections and improve the sustainability of the products. Asked whether this tool could be replicated by other companies, Kering flagged that some companies in different industries have started to adopt this tool already (e.g. Novartis, BASF, Philips), and would hope the EP&L becoming a reporting standard in the future as the EU continues to drive growing transparency regulations. **Kering's EP&L is available [here](#).**

Enel: Sustainable Issuer experience

Participants:

Alessandro Canta, Head of
Finance & Insurance, Enel

Enel adopted a sustainability strategy in 2014, with a framework focusing on energy services and renewables as opposed to traditional utilities investing. This strategy aimed to be financially sound, and the associated cash flow generated allowed to improve debt efficiency and liability management. Enel made the first step towards the green bond issuance in 2017 when the eco-system started to be well-established.

Enel issued three green bonds in 2017, '18, '19, with a very positive market feedback. To do so, Enel created a green bond committee in order to secure the use of proceeds and track the investments. Enel also thought to innovate with sustainability-linked bond that, at the time, we used to call SDG bond. This was pushed by the fact that the corporate strategy was already committed towards some achievement of some commitments towards the Sustainable Development Goals – more precisely Goals 7, 9, 11 and 13.

As market feedback was positive, Enel issued such bonds in USD, EURO and GBP. The US market was particularly receptive as this was a new type of offering. Following Enel's lead, the International Capital Market Association principles for sustainability-linked bond. Another important step was led by the European Central Bank that has recognized this instrument as a new asset class, leading these instruments to be used as a collateral and included in their purchasing program agreement.

Yet Enel sees a gap between ESG integration on the Equity and Fixed-Income side. According to the company, the equity market has recognized this value faster than in the early stage in respect of what the credit market most likely have done. This has resulted in a clear link between share price outperformance and sustainability strategies in the last two, three years. This still needs to be fully reflected on the credit side.

The company estimates that its latest business plan, include more than 80% of investments and its activity would be aligned with the SDGs but also quite aligned with the European taxonomy. Enel strongly believes that sustainability strategies have to be more recognized by credit investors so a financial incentive exists and provide structural support.

The Rise of Social & Sustainability Bonds

Participants:

Eila Kreivi, Head of Capital Markets, EIB

Denise Odaro, IFC Head of Bond Investor relations / Chair, Green Bond Principles & Social Bond Principles EC

Stephen Liberatore, MD / Head of ESG / Impact, Global Fixed Income, Nuveen Asset Management

Alessia Falsaronne, MD, Head of Sustainable Investing, Senior Portfolio & Risk Strategist, Fixed income, Pinebridge investments

Moderated by:

Marilyn Ceci, Global Head of ESG DCM

2020 was an explosive year for Social and Sustainability Bonds and continues to be strong in 2021. This session explored how issuers are incorporating social use of proceeds (such as racial equity and sustainable sourcing) into bond issuances as well as investor preferences on social use of proceeds and expect impact metric reporting. This panel was moderated by Marilyn Ceci, Global Head of ESG DCM (J.P. Morgan), and hosted Eila Kreivi (Head of Capital Markets - EIB), Denise Odaro (Head of Bond Investor Relations - IFC), Stephen Liberatore, MD / Head of ESG / Impact - Global Fixed Income, Nuveen, and Alessia Falsaronne, MD, Head of Sustainable Investing, Senior Portfolio & Risk Strategist, Fixed Income, Pinebridge Investments.

COVID-19 helped scale up and diversify the social bond market: Social bonds are not new. However, they haven't been scaled up until 2020, where volumes increased significantly (Bloomberg reported a record issuance of USD 147bn, up 7x. vs. 2019). Social bonds use of proceeds were historically focused on areas such as social & affordable housing – where impact metrics are relatively easier to measure. With the COVID-19 crisis, social bonds diversified their focus: in 2020, loans & lending programs to SMEs, medical facilities, food security or education became part of issuance programs.

How to think about impact in a context of social issues: Panelists highlighted the difficulties associated with impact measurement on social areas. Target populations are dependent on specific geographies, which may require to use a variety of indicators. Panelists highlighted the need to consider “Outputs, Outcomes, and Long term impact”. Outputs are practices (what are the product and services of a project?), Outcomes are “benefits, and the changes to those or the project beneficiaries”. The actual impact is the “results and ultimate objective of the outcome”, which may take several years to be visible (e.g. reduction of rates of homelessness).

Social Bond Principles: the ICMA published a guidance on social bonds issuance in June 2020 ([Social Bonds Principles](#)) and defined social bonds as ‘*us of proceeds bonds that raise funds for new and existing projects that address or mitigate a specific social issues and / or seek to achieve positive social outcomes*’. The guidance refers to another document that was published on “[working towards a harmonized framework for impact reporting for Social bonds](#)”, which provides 6 core principles for reporting, and eight recommendations, with the objective to foster transparent reporting.

Towards a EU "Social" Taxonomy: Panelists highlighted that at the EU level, a group of experts are working on 1) whether a social taxonomy should exist and 2) what it should look like. This working group is also likely to build the flesh around the bones around “minimum social safeguards” which are currently in the climate mitigation taxonomy. Panelists were confident that a social taxonomy will emerge. However, what it will be made of remains difficult to assess for now. Angles considered include: good governance practices around employees' rights, human rights, as well as topics such as adequate living conditions. A first report could be expected in Q2/early Q3 2021, to be followed by a public consultation.

Institutional investors keen to build portfolio based on impact metrics: Panelists highlighted that institutional investors are not concerned about the risks of financial under performance from green or social bonds. Discussions tend to focus on how to discuss the sustainability impacts of portfolios to beneficiaries. A lot of Asset

Owners are seeking to transition and are therefore interested in green and social bonds. This comes at a point where, according to panelists, 99% of new mandates for asset managers are associated with at least some form of ESG requirements. A trend which, according to the panelists, is not limited to Fixed Income but also visible in other asset classes.

Investors interested in ESG & impact are diversifying: ESG strategies have kept raising over the last 10 years, we 2020 being a watershed moment. However, panelists reported that the type over investors interested in ESG and impact is diversifying: public institutions, university endowment, religious institutions, high-net worth individuals, family offices. Panelists see investors most interested about impact. With the Green and Social bonds market being more diversified (in terms of issuers) than 10 years ago, asset managers can now provide opportunities their end beneficiaries with opportunities to deploy capital with portfolio construction approach combining a measurable impact metric to more traditional risk parameters and risk return criteria.

EIB “Sustainability Awareness Bond”: The EIB highlighted that its “Sustainability Awareness Bond” program was a natural continuation of its Climate Awareness Programme (started 14 years ago in 2007). Given its anteriority, and the fact that climate is the biggest area of lending, the EIB kept its Climate Awareness Programme separated. However, as the focus on ESG increased and diversified, the EIB launched the SAB Programme, to cover all other topics (inc. social ones). It started on water issues, but soon diversified to social areas: health and education in 2019, and COVID-19 emergency responses in 2020.

Air Products and Chemicals – Energy Transition and Hydrogen (Fireside chat)

Participants:

Simon Moore, Vice President,
Investor Relations, Corporate
Relations & Sustainability, Air
Products and Chemicals

Hydrogen is likely to play a significant role in decarbonizing our economies, as it is well suited across many applications, in hard-to-abate sectors. Following the recent publication of our report [EMEA Hydrogen: A revolution in need of realism](#), we hosted **Simon Moore** from Air Products and Chemicals (APD) and discussed the drivers for gray, blue and green hydrogen production and demand, as well as explored the roadmap to support the energy transition.

Moderated by:

Jean-Xavier Hecker, Co-Head of
ESG & Sustainability research,
EMEA Equity Research, J.P.
Morgan

APD's core product environmental benefits: To kick off the panel, Moore gave a short presentation on Air Products' ESG credentials. APD highlighted in particular how the use of industrial gases by its customers is driven by sustainability regulation (use of H₂ for fuel desulfurization). It also highlighted significantly avoiding emissions inherent to the business: for every ton emitted by APD, its consumers save 2.5 tons of CO₂. We remind investors that "avoided" and "induced" emissions can however not be subtracted from each other, and that this metric is different from climate metrics used to assess transition risks (in particular demand risk) and 2°C alignment.

New sustainability targets: In September 2020, the company set a "Third by 30" target of achieving a -33% reduction in its GHG emission intensity by 2030 (vs. 2015 baseline). APD also has diversity targets of having 28% female and 20% minority representation in professional and managerial population by 2025.

APD carbon pricing pass-through ability: The speaker highlighted that wherever there is a cost for CO₂ (tax or credit) applied to their on-site contracts, this CO₂ cost is passed along to its customers.

An outlook on the H₂ rainbow: While acknowledging that interest in hydrogen is not new, Moore highlighted that the recent regulatory and sustainability push has brought it under the spotlight. Gray hydrogen (i.e. hydrogen formed through steam methane reforming) has been around for a long time and Moore expects the demand for it to be there for many years to come. However, regulatory pressure could push for the conversion of gray hydrogen (which emits CO₂) to blue hydrogen by retrofitting the plants with carbon capture facilities. Therefore, there could be significant opportunities in blue hydrogen in certain parts of the world, especially where there is support for CCS.

NEOM Project: Air Products, last year in conjunction with ACWA Power and NEOM (Saudi Government), launched a \$5 billion world-scale green hydrogen-based ammonia production facility powered by renewable energy. The project is expected to produce 650 tons of green hydrogen per day, using ThyssenKrupp electrolyzers with desalinated sea water, which will then be mixed with nitrogen (produced from an Air Separation Unit) to produce "Green" ammonia. Moore highlighted that the hydrogen from NEOM can support about 20,000 city buses, while there are about 3 million city buses in the world. The project, equally owned by the three partners, is sited in Neom, Saudi Arabia, and represents a change in scale in green H₂ production. APD investments represents USD3.7 bn in total. The company will be the exclusive off-taker of the green ammonia and intends to transport it around the world to be dissociated to produce green hydrogen. The speaker highlighted that the project itself has a pre-signed off-taker of all its output at

a known price, which will deliver a certain return assuming the project can be executed as expected. Moreover, longer term he expects to have high demand for green hydrogen by 2025, the year when the project comes on-stream. See more about JPM estimates of the economics of the NEOM in the note of APD covering analyst, Jeffrey J. Zekauskas – 18/08/2020 “[Back of the Envelope Hydrogen](#)”.

APD CCS know-how: APD’s H2 plant in Port Arthur was retrofitted with a carbon capture facility and is estimated to have captured 6 million metric tonnes of CO2 since 2014. As the company looks for opportunities around the world where the value of captured carbon is high, this project serves as a model for conversion of gray hydrogen plants into blue ones through carbon capture, and provides the company with operating experience to retrofit, build, execute and operate CCS systems. Currently, the CO2 captured at Port Arthur is used for Enhanced Oil Recovery (EOR).

Carbon capture costs: Retrofitting SMR projects with CCUS to capture the carbon emitted has a cost element to it. The cost of the CCUS project is dictated by the purity of emission sources as well as the availability of storage sites. The economics of the overall project will also depend on the potential demand associated with this carbon. APD sees an opportunity for innovation on chemically converting CO2 into another productive element (Carbon Capture and Usage – CCU), for example syngas. APD and others are conducting R&D on this, but so far, there isn’t technology available for world-scale development in that area.

Hydrogen transportation: Hydrogen transportation is one of the key elements that needs to be considered while charting the path to a hydrogen economy. Currently hydrogen is transported in the form of gas through pipelines or compressed in cylinders and transported through trucks. There are also a few instances where it is transported in liquefied form. None of these methods are deemed very efficient for very long distances by our speaker. Transportation through pipelines is not possible for long distance, neither is transporting in cylinders due to high distribution costs, while liquefying hydrogen consumes a lot of energy. Until there is a more efficient and developed infrastructure in this regard, Moore highlighted the use of ammonia as a carrier for hydrogen, similar to what is planned for the NEOM project. Existing supply infrastructure could be leveraged to transport hydrogen as ammonia.

Geographies better positioned for H2 economy: For the green hydrogen future, it will be very important to have availability of carbon-free electricity close to the plant. In this context, our speaker emphasized the advantage of geographies “where the sun shines and the wind blows” to use solar and wind power for electricity generation. It will be more economical to produce green hydrogen in these geographies and then transport to regions where the demand is.

Coal gasification & sustainability: APD has deployed large amount of capital into gasification of coal. The company sees that as consistent with its approach to sustainability. Countries are focusing on gasification as it helps them use their existing coal resources more sustainably (as it emits less air pollution for example) and respond to pressing social needs for affordable energy. If gasification projects are in locations where the framework supports CCS, this could be a long-term opportunity according to APD.

Participants:

Dr. Thomas Becker, Vice President
Sustainability, Mobility, BMW
Group

Alexis Bateman, Research
Scientist & Director of MIT
Sustainable Supply chains,
Massachusetts Institute of
Technology

Jeroen Bos, Head of Specialised
Equity & Responsible Investing,
NNIP

Moderated by:

Hugo Dubourg, Co-Head of ESG &
Sustainability research, EMEA
Equity Research, J.P. Morgan

Building a sustainable supply-chain (Panel)

Supply chains have long been a focus for responsible investors, yet the COVID-19 crisis and the related disruptions have renewed interest for the matter. From the lack of masks at the beginning of the sanitary crisis to the current tensions in semiconductors, the world suddenly realized the integration the global value chains but also their weaknesses. In fact, the term resilience has become a buzzword for companies. While around 1,600 corporate documents & earning calls mentioned the term resilience at the beginning of 2020, this number reached more than 10,000 by mid-2020.

Beyond resilience, the growing regulatory focus on Extended Producer Responsibility is also shining a light on the massive social & environmental impacts happening in the value chains of companies. On the social side, the UK Modern Slavery Act and the French Duty of Vigilance law have been setting the direction, and so will the European Union with its own Supply Chain Due Diligence regulation. Over the last few months, corporate scandals in the UK and relative to the Xinjiang region in China have also fostered investors' interest in supply chains. On the environmental side, net zero and scope 3 targets are also pushing for more transparency and accountability across value chains.

Supply-chain mapping, resilience, transparency & sustainability are

interlinked: Alexis Bateman, Director of the MIT Sustainable Supply chains Lab, said increased regulation meant companies now have to know more about their suppliers and report on that. She broke down three key areas needing development. Supply-chain mapping relates to the capabilities of companies to get information. The second piece relates to the existing information gaps that will be highlighted. Then the third piece relates to transparency, how is information shared between players and how is it disclosed publicly. "All of these working in tandem are really pressing a lot of progress," Bateman added that greater knowledge of supply chains and traceable materials meant companies could become more resilient in the face of disruptions.

Companies' policies, processes and controls are necessary to insure minimum

standards: With 12,000 suppliers in 70 countries, BMW has one of the most complex global supply chains. In order to ensure minimum standards, the German automaker carries out an assessment of the capabilities of potential suppliers before signing any contracts, "Do they have the management ability? Do they have the mechanisms in place?". Suppliers are then asked to sign a contract that upholds BMW's environmental and social commitments. Thomas Becker outlined the company's additional check and control criteria that employs flags in two areas. In products, materials like cobalt used in electric vehicles and leather dying are inherently more "risk-prone." Meanwhile in terms of countries, BMW ensures production integrity is met at a national level and would prioritize cobalt suppliers in Australia over the Congo for example.

Technology will help but there is no golden nugget: Alexis Bateman highlighted that a few years ago, all companies were mentioning blockchain as a wonderful solution for supply chain traceability. In fact, technology is present in multiple aspects of supply-chain management, by identifying and tracking different inputs across the value chain, or by providing the data to multiple stakeholders. Technology could therefore bring solutions, but these won't be a substitutes for policies, processes and controls, as highlighted by BMW's comments.

How to account for Supply-Chains risks as an investor: The largest share of environmental & social impacts are generally concentrated in the value chains of companies. Assessing the overall exposure of companies to sustainability issues across their value chains is therefore crucial for investors looking to reduce their negative impacts, but also their financial risk exposure as regulators are pushing the concept of extended producer responsibility. Jeroen Bos, Head of Responsible Investing, said NNIP that information is imperfect. But several proxies can be used. As a measure of exposure, NNIP assesses how many indirect suppliers a company may have, to establish what areas of their supply chain they are able to control. Then, assessing the areas that could have material impact on the profits of companies. For example, palm oil is likely to be related to biodiversity risks. Following this mapping, the investment and responsible investing teams conduct a SWOT analysis on companies, looking at areas like use of palm oil, safety records and the wages and conditions of employees. The rise of alternative data – such as satellite imaging – could provide further information to investors.

Net-Zero commitments are bringing new challenges but are likely to foster a domino effect: BMW has set an SBTi target of 1.5°, with a commitment to reduce scope 3 GHG emissions from use of sold products 40% per vehicle kilometer by 2030 from a 2019 base year, and more specifically to reduce scope 3 GHG emissions from purchased goods & services and upstream transportation & distribution services 22% per vehicle sold by 2030 from a 2019 base year of reducing its emissions footprint per vehicle by one-third by 2030, this will imply significant changes all along the value chain. The average car produced by BMW has a carbon footprint of 10t CO₂ before the company starts assembling it. While some aspects of carbon accounting are relatively straightforward – assessing the carbon content of steel or aluminum for example, the same cannot be said of an engineered motor part. There are therefore methodological development needed are BMW is collaboration with SAP and Bosch on this topic. We view Net-Zero and scope 3 commitments as an extremely powerful tool to push value chains to decarbonize, and discussed Apple's value chain impacts in this [ESG Wire](#).

Have we reached peak globalization? The increased political tensions between the US, Europe and China regarding Xinjiang tends to suggest that we have not reached what Francis Fukuyama called “The End of History”. Thomas Becker highlighted the difficulty as a business to cope with a fast changing political environment, while Alexis Bateman stressed that the current sanctions were “band-aid” to cope with risks of forced labour. She argued that a broader approach to the issue, including the upcoming European Due Diligence of supply chains regulations, would be significantly more effective in creating a proactive approach of sustainability risks by companies, as opposed to the reactive management of scandals that we have seen in the past. Finally, regarding the probability of significant relocation of supply-chains, the panelists argued that we will more likely see partial relocation under political incentives or pressure, as well as an increased diversity of countries of implementation in order to minimize risk. We made a similar point in our report [COVID-19 likely to be a long-term catalyst for more balanced ESG investing](#).

Fair Transition in the context of climate strategies: who should pay for carbon? (Panel)

Participants:

Jean-Jacques Barb  ris, Head of Institutional & corporate clients coverage, Amundi

Bruce Niemeyer, Vice President Strategy & Sustainability, Chevron Corporation

Nick Robins, Professor in Practice - Sustainable Finance, London School of Economics & Political Science (LSE)

Moderated by:

Jean-Xavier Hecker, Co-Head of ESG & Sustainability research, EMEA Equity Research, J.P. Morgan

An ever increasing number of companies and countries are pledging to reach "Net Zero" GHG emissions over the next few decades in order to align with the objectives of the Paris Agreement. While there are multiple socio-economic and technological pathways to reach this objective all of them will result in massive investment flows being mobilized, as sectors need to "internalize" carbon prices. What tools are companies using to allocate capital in this new environment? To which extent do carbon prices represent a social issue? In this panel with Jean-Jacques Barb  ris, Head of Institutional & Corporate clients coverage at Amundi, Bruce Niemeyer, VP Strategy & Sustainability, at Chevron Corporation, and Nick Robins, Professor in practice - Sustainable Finance at the LSE we discussed the use of "carbon prices" to stress test investments and inform investment decisions, and how & why a successful Energy transition requires to take into account social considerations into investment decisions.

Climate change as a social issue: "Just Transition" is a notion included in the 2015 Paris agreement, and critical success factor to shift to a net zero economy. It encompasses two aspects: 1) social opportunities (creation of good quality jobs and opportunity to cut inequality) and 2) Inclusivity: avoid stranded workers and communities. This implies fairness, empowerment in decisions, and a making sure costs & benefits are shared equally.

Just transition is part of political agendas: Just transition is at the heart of the Green Deal, and also part of Biden's climate plan. As the COVID-19 added emphasis on inequalities, "Green recoveries" are also seen as a unique opportunity to deal with these.

Balancing ESG issues requires companies to adapt to changing stakeholders expectations: Chevron highlighted that ESG considerations, requiring the balancing of social and environmental components, have always been part of their ethos, resulting in strong engagement with communities and government, backed by a robust internal governance. With Chevron supporting the Paris Agreement, broad support across all of society is needed to deliver on these goals.

From carbon prices to carbon costs: Current CPM (Carbon price mechanisms) only cover 22% of world GHG emissions with price levels ranging from USD 1 to USD 114. Hence, in the absence of a global carbon price which would act as a "level playing field", markets are in a "price discovery mode" trying to find ways to price carbon. For Amundi, a decent price to achieve net zero would start at USD 50/t.

The challenge of designing "fair" carbon prices: Yet, carbon prices do not encompass all associated costs, as associated policies have redistributive effects which are hard to capture. Where carbon pricing systems separate the "benefits" and "costs", additional measures are likely to be needed to address their social impact. Models such as "revenue neutral" or "cap & dividend" models can be used to make carbon taxes more socially acceptable and fair.

Investors need to approach corporates' climate strategy in a nuanced manner: To do this, investors may opt to use several tools: 1) Forward looking assessment of climate strategies & business model transformation, 2) Temperature alignment methodologies applied at portfolio level 3) Tracking corporates with Science-Based Targets (SBTi), and 4) engagement with issuers for them to adopt SBTi. Panelists highlighted that investors need to move away from approaches based solely on "risk assessments" and consider how to generate positive impact in absolute terms.

Managing Carbon price risks at company level: Chevron reiterated its support to a price on carbon, highlighting that pricing carbon has the potential to unlock innovation and contribute to a just transition if done with the right manner. To cope with carbon pricing mechanisms, the company forecasts carbon prices internally for various jurisdictions throughout the world, similar to what they do for commodity prices. These forecasts are worked into their evaluation protocols (impairment testing, project capital allocation, decisions of portfolio analysis). On the US “Social cost of carbon”, the company recalled that this mechanism was not a particularly new thing for the US, albeit some key inputs to the SCC have been subject to recent discussions. Positioning portfolio on advantaged assets (from both a cost and carbon perspective) under various scenarios of prices remain the most important aspect for an oil company to deal with the uncertainties and the direction of travel that society is moving into.

“No jobs (and no profitable investments) on a dead planet”: For green policies to be socially acceptable, there is a need to recognize that a “no transition” scenario is not an option, due to the significant impact that climate physical risks would on economies (and on investments). Hence, “net zero” must be locked-in, as a starting point. Then, companies need to detail credible transition plans and include a value-chain wide social component into it. This makes Human capital, and in particular skills and career development a material issue for high emitting sectors.

Social transition: the missing part of the TCFD puzzle? Speakers pointed out that “Just transition” component, and the “S” part of the climate challenge has been left out in the TCFD reporting framework. In the absence of standards, investors have started working around methodologies and published position papers & roadmaps, such as in France ([here](#) and [here](#)), or in the UK ([here](#)). This represents a start, but integrating social considerations into climate change investments related approaches will require to take into account geographical differences. Yet, contributing to a fair transition also relates to ESG issues, and in particular, being a responsible tax payer.

Just transition will be part of active ownership: To address these issues, collaborative engagement initiatives with corporates will be needed to get data and corporates feedback.

Just transition as an investment theme: Amundi announced during the panel that it would soon launch a fund dedicated to the just transition, where a “just transition” score has been computed for each of the companies in which the funds invest, considering how company are engaging with different stakeholders, but also considering the affordability of products.

COP 26 may be the COP of green recovery: Panelists anticipated that the COP 26 could be a useful forum to steer the recovery towards the net-zero ambition. They highlighted that other international forums were also working on that, inc. G7 and G20. As a global carbon price is unlikely, measures will be rolled out at a country level, and / or throughout cooperation’s between countries.

What role for offsets? Asked by the audience about carbon offsets, panelists conveyed a prudent message on their role in net zero strategies. While reminding that they have a role to play as part of a wider mix of solutions, progresses are needed first, in order to increase trust levels in the environmental robustness of these instruments, as well as in the market infrastructure to trade them. Offsets could however play a role for residual emissions. Yet, the focus in the short and medium term should be on absolute emissions reductions. See more on offsets: [ESG Wire 23/10/2020](#).

Sovereign ESG Analysis – Hurdles in the Sovereign Debt Space (Panel)

Participants:

Sergei Strigo, Co-Head of
Emerging Markets Fixed Income,
Amundi

Lydia Harvey, Senior ESG
Specialist, J.P. Morgan

Ekaterina (Katya) Gratcheva,
D.Sc., Lead Financial Officer,
Climate Investment Funds, World
Bank

Moderated by:

Luis Oganés, Head of Currencies,
Commodities & Emerging Markets
Research, J.P. Morgan

From substantial lags in data quality, lack of standardization, inherent biases towards higher-income nations, and pragmatic questions on whether sovereign ESG scores impact the behavior/policies of a national government, ESG analysis within the sovereign debt space is in a state of flux. Within this panel, we discussed the broader purpose of sovereign ESG approaches, the challenges, opportunities and outlook for the asset class.

Sovereign ESG scores are disconnected to EM investors' intentions: J.P. Morgan found within its inaugural ESG survey dedicated to EM investors ([report](#)) that clients seek to integrate sovereign ESG factors within their investment process to “support those countries that have the greatest sustainability journey.” However, this is in contrast to the outcomes of multiple ESG vendors' sovereign ESG ratings.

Sovereign development bias: In a [2020 report](#), the World Bank surveyed seven major ESG vendors that provide sovereign ESG ratings and found that 90% of sovereign ESG scores could be explained by the country's level of development – what the panel called a “sovereign development bias”. Consequently, there is a dislocation between investors who seek to prioritize sustainable development in emerging markets through their ESG strategies and the ESG ratings that rank emerging markets poorly relative to developed markets.

Debt capital markets are essential for EM sovereigns: Debt asset classes are considered the most important source of capital access for emerging markets. As a result, with the growing recognition of ESG within institutional investors' investment strategies, the “sovereign development bias” conundrum is increasingly problematic. This is accentuated as passive investments grow in prominence, placing greater importance in fixed income ESG indices' methodologies.

Sovereign ESG data is not a “plug and play”: As much of ESG data is not standardized, investors tend to unravel a variety of sovereign ESG data sources in order to derive their own proprietary “coherent” sovereign ESG view. Particularly as sovereign ESG data is imperfect in its timeliness (in some cases as much as three years lagging), the panel recognized the importance to “clean” sovereign ESG data in order to pinpoint forward-looking positive ESG momentum factors.

Quality carbon data at a country level is paramount: Unsurprisingly, sovereign environmental data is most difficult to source. Conscious of this, the J.P. Morgan Index Research team has recently completed an assessment of country-level climate, energy and carbon data. The review was conducted as part of a broader project to create more transparency on carbon emissions and to support the development of climate products in the future. The International Energy Agency (IEA) was identified as the most reputable source for country level carbon and energy data.

DMO engagement is key: Many investors agree that issuer engagement is critical principle in any ESG strategy, however this is considered a relatively untouched area in the sovereign debt space. Whilst there is a desire to engage on ESG topics, investors feel that without coordination and collaboration on ESG topics and desired outcomes that engagement may be ineffective.

Credit agencies expected to grow in ESG importance: Rating agencies have invested more in their ESG analytic capabilities by acquiring multiple ESG vendors

in recent years. Traditional ESG vendors face several criticisms, many in relation to a lack of clarity and transparency around underlying ESG score methodologies. Subsequently, investors believe credit agencies are best placed to standardize the current ESG rating landscape.

Day 3 - March 25th

Participants:

Pietro Bertazzi, Global Director,
Policy Engagement, CDP

Ming Yang, Chief Financial Officer,
Daqo New Energy

Moderated by:

Alan Hon, China Renewables
Analyst, J.P. Morgan

China Carbon Neutrality 2060: Implications on climate reporting, asset risks and energy transition (Panel)

President Xi's Carbon Neutrality 2060 target will push China's energy transition from fossil fuel towards clean fuel. The gov't has recently proposed carbon reduction measures such as carbon tax/trading. Against such a backdrop, we think that climate related disclosure is becoming even more important, so that investors can assess the climate related risk profile of companies. We hosted a panel on China Carbon Neutrality 2060: Implications on climate reporting, asset risks and energy transition at the J.P. Morgan ESG Conference. The speakers were **Mr. Ming Yang** (CFO of Daqo New Energy) and **Mr. Pietro Bertazzi** (Global Director, Policy Engagement of CDP).

Carbon Neutrality Development: Shifting away from reliance on coal-fired power generation. In 2019, China produced >70% of its power using coal. The power sector contributed >30% of the country's carbon emissions. Thus, Ming expects China to increase the mix of non-fossil fuel power to >90% by 2050 and reduce its reliance on coal-fired power to <5% as one of the measures to achieve carbon neutrality 2060.

Giving rise to wind/solar development. Considering that the cost of wind/solar power is approaching grid-parity (vs. that of coal-fired power), Ming thinks that it makes sense for China to push wind/solar development. Indeed, the NEA (National Energy Administration) – China's Energy Bureau has announced a goal to have >1,200GW of wind/solar power capacity by 2030. Between wind and solar, Ming sees solar having better cost structure. Solar is also easier to adopt (i.e. distributed rooftop, solar farm can easily be placed closer to load center). Strong wind site tends to be located far away from load center, making dispatch of electricity slightly more difficult. On the other hand, wind power has the scale advantage. Economy can also be achieved in areas with very strong wind resources. Given the country's renewable mix is at a low base and to some extent, wind and solar can complement each other, he thinks that both wind and solar development will accelerate to achieve China's decarbonization goal.

Opportunities along grid and ESS development. With technology-led cost improvement over the last decade, the cost of wind/solar power is no longer a hurdle for deployment. Ming thinks that the Chinese gov't will need to push grid infrastructure and ESS (Energy Storage System) development alongside the rising mix of wind/solar in the power market. The output of wind/solar tends to be volatile.

Climate reporting is becoming even more important for investors, on the backdrop of carbon neutrality development. CDP is a global non-profit organization that runs a disclosure system for companies on environmental impacts. Pietro (Director of CDP) thinks that climate related disclosure helps investors to know how well a company is prepared to manage such risk. Without proper disclosure, the financial impact of climate change cannot be priced and measured. In an era when Chinese gov't is pushing carbon neutrality and introducing measures such as carbon tax/trading, we think that the role of climate related disclosure will become more important for investors.

China's climate related reporting is improving on a solid trajectory. Referring to the CDP database, Pietro thinks that China's climate related reporting is improving on a solid trajectory. In 2019, the number of Chinese corporates voluntarily disclosing through CDP increased by 75%, followed by another 28% increase in 2020. This showcases that more Chinese companies are now taking climate risk report into consideration. Together with President Xi's 2060 Carbon Neutrality Target (increasing awareness) and the soon to be announced ESG disclosure requirement by CSRC, Pietro expects the amount of Chinese companies with climate related disclosure to increase meaningfully. That said, Chinese listed companies still lack global peers in terms of climate awareness. For example, only 40% of Chinese listed co. report using climate scenario in developing climate strategy, where global peers stand at >50%.

Nature-based solution is another aspect to help achieve carbon neutrality. Pietro shares that in addition to energy mix transition from fossil fuel to clean ones, China will likely venture into nature-based solution as part of the carbon neutrality 2060 initiatives. Nature-based solution is the use of nature for tackling sustainable issues such as climate change (e.g. forest restoration, etc.) According to Pietro, a global biodiversity framework conference will be held in China Oct this year, with more details on how China may adopt nature-based solutions.

European ESG regulatory outlook: what should investors have in mind (Panel)

Participants:

Herman Bots, Head of FSS Equity, APG

Raphaël Reynaudi, Manager, climate change & sustainability services, EY

Julie Ansidei, Head of Strategy & Sustainable Finance Unit, French Financial Markets Authority (AMF)

Moderated by:

Jean-Xavier Hecker, Co-Head of ESG & Sustainability research, EMEA Equity Research, J.P. Morgan

The EU Sustainable Finance Action Plan and the upcoming “Renewed Sustainable Finance” Strategy represent a highly complex and disruptive agenda for mainstream and ESG investment as we know it. In March 2021, investors had to publish their first mandatory disclosure from the Sustainable Finance Disclosure Regulation, while additional details are expected from the EU on several landmark tools, such as the European Taxonomy for Sustainable activities. **In this panel, we hosted Herman Bots**, Head of FSS Equity at APG, **Raphaël Reynaudi**, Manager, climate change & sustainability services at EY, **and Julie Ansidei**, Head of Strategy & Sustainable Finance Unit at French Financial Markets Authority (AMF) **to share their views on the challenges faced and the opportunities represented by a regulatory framework considered by many as “the most advanced” in ESG.**

What has been achieved: Since the publication of the EU Sustainable Finance Action Plan three years ago, the pace of regulatory reforms around ESG has been huge. Every single corner of financial regulation has been moved, is moving or will move to integrate sustainability considerations. While some legislation is just clarifying the duties of market intermediaries, others are trying to push for changes in the market. The regulators are looking at both the “green” (through sustainable actions) and the “brown” side (through Principle Adverse Impacts, Do No Significant Harm) of investments.

Key milestones: The adoption EU Taxonomy has changed the way we are looking at market financing, corporate activities, and the economy in general. The SFDR intends to bring transparency around markets for responsible products, and what entities are doing for sustainability. The benchmark regulations have been updated to bring more transparency around ESG benchmarks and introduce new climate benchmarks. Investors should look out for the upcoming changes in the MiFID suitability rules, which will force firms to capture clients’ ESG preferences as part of suitability assessment.

Main challenges: The changing era of ESG in Europe requires a strong collaboration between the various work streams, such as ESG, legal, compliance and risk. Our panelists pointed out that investors tend to have difficulty navigating through the plethora of regulations and understanding their practical implications and implementation schedule. The close interlinkages between regulations (SFDR with EU Taxonomy) and multiple levels – with different timelines - in each (Level 1 SFDR and draft Level 2 SFDR) make the interpretation and compliance difficult. There are also questions on alignment between the European and the national regulations. Another topic of concern remains the availability, standardization and the quality of ESG data, which the EU regulators wants to address by creating a EU Single Access Point for financial and non-financial information of listed companies (ESAP), while the French & Dutch Market authorities had called for a EU regulation of ESG data, ratings and related services.

European vs. national regulations: On the question of the difference between the French and the European regulations on sustainable finance, Julie Ansidei noted that France has a long history of responsible investments and already has regulation in place. The AMF published [a guidance](#) to clarify the regulator’s expectations from Financial Markets Participants (FMPs) that wanted to promote their products as sustainable and use ESG as a key selling point. In relation to SFDR, the French and the European approach are complementary but they have different objectives. SFDR

aims to bring transparency while the French regulation sets minimum standard for those products. Ansidei hopes that the French domestic approach is brought forward at the EU level as well to avoid the risk of greenwashing. The guidance established that sustainable products should have a binding commitment to strategy that is meaningfully different from traditional investment strategies.

Key elements of SFDR: The SFDR requires transparency at entity level on the website and at the product level in pre-contractual documentation and periodic reporting. Raphaël Reynaudi believes that the three concepts introduced by SFDR are likely to shape ESG in Europe in the coming years: sustainability risks, principal adverse impacts (PAI), and product categorization. Reynaudi's thoughts broadly aligned with what we discussed in our [19/03/21 ESG Wire: SFDR - Takeaways from the first disclosures](#). Additionally he notes that the regulation, in its current form, does not define what ESG product or characteristics are, what sustainable objective mean and how the prospectuses need to be changed. Further clarifications from the regulator can be expected.

Dialogue amongst the investor community to check interpretation: Current complexity of the EU regulatory package implies room for interpretation, highlighted the need for investors to engage with peers to check if the interpretation of the regulations is aligned.

Behavioral change due to SFDR: From an investor perspective, Herman Bots highlighted that the new regulations give an opportunity for self-reflection to assess whether you are best-in-class or just following minimum requirements. On the question of whether or not the SFDR will foster behavioral change, he thinks it will depend on the threshold requirements (if any) for the 50 ESG indicators proposed under draft Level 2 SFDR (see [12/02/21 ESG Wire: SFDR - What you need to know after the ESA's final report](#)). From a philosophical standpoint, this should not bring any big change as these factors should have already been integrated into investment decisions.

International complexity: Since most companies and financial intermediaries have a global presence, it will be important to have international cooperation on pushing the sustainability agenda. But the first step is to make the regulations work in Europe. At present, the rest of the world is approaching ESG from a financial materiality perspective but there is a consensus that corporates need to report ESG data. Yet, we believe that the consideration of "double" and "dynamic" materiality is starting to emerge in other geographies, and in particular in the USA (see- [ESG in the USA - a new dawn](#)).

NFRD should help resolve issues around data availability and credibility: The investor community has concerns about the availability of data from issuers and the quality and credibility of the said data. The Non-Financial Reporting Directive (NFRD) is being revised to resolve these concerns and it is expected to make corporates report the data that the financial entities need to evaluate the sustainability of their portfolios. The first key features that are emerging from this revision include a common set of mandatory, sector-specific, and voluntary indicators. It is expected to strengthen and harmonize auditing requirements across EU to include non-financial data. The regulators are also thinking about making raw data easily accessible publicly to reduce costs and dependency on external data providers.

Developing methodologies for the production of specific metrics will be crucial: While acknowledging that transparency of data is important, our panelists pointed

out that harmonizing the methodologies of calculation for each metrics will be crucial, as for now, several metrics with the same "label" can be produced using different assumptions, resulting in a lack of comparability across companies and sectors. However, it is not clear yet whether NFRD will introduce any standardization for the methodology used to calculate a specific ESG metric.

ESG passes the COVID test

Participants:

Neha Coulon, Global Head of ESG solutions, J.P. Morgan

2020 was the first real stress-test of ESG investing and demonstrated the resilience of ESG investor demand and continued appetite for assets with a strong ESG narrative. In this session, Neha Coulon, Global Head of ESG solutions at J.P. Morgan explored the investor, regulatory and corporate trends that made 2020 a significant year for ESG and provided insights into emerging trends that investors should focus on in 2021.

2020 was a tipping point for ESG assets: The speaker noted that 2020 saw assets and ESG-focused funds skyrocket with over a 95 percent gain in dedicated assets under management. This was largely driven by the COVID-19 pandemics, and the strong acceleration in country specific pledges to reach “net zero”.

COVID-19 as the second paradigm shift for ESG: A first paradigm shift in ESG investments can be observed post Paris Agreement (2015), where ESG asset growths moved from 6-8% pa. to approx. 20-25% pa. COVID-19 was the second paradigm shift, and the first stress test for ESG investing, as it went through a full business cycle.

ESG investing rises within the private sector: A lot of the P/E funds and the private credit funds started to incorporate ESG into their due diligence processes, as they received pressure from LPs to demonstrate they were able to incorporate ESG in a systematic way across their investment portfolios.

Strong innovation pipeline in Fixed-income: Sustainable debt (SD) market reached new highs in 2020. In particular, new type of instruments started to be scaled up, such as sustainability-linked bonds and transition bonds, which are likely to “democratize” the SD market. These innovations permeated other parts of the fixed income markets (e.g. convertible bonds and leveraged loans). These innovations brought a lot of new issuers in the labelled bond market.

Two-ways ratchets: The speaker highlighted that in the leveraged loan market, “sustainability linked ratchets” were working both ways: If the company meets the KPI, they immediately get a predefined margin benefit. If they don't meet the KPI, then they have to pay up as a penalty. This market is quickly growing, with 8 transactions in the first months of 2021, vs. 7 in 2020/2019.

Long/short absolute return strategy gained momentum: Assets growth was associated with the launch of numerous thematic funds, with energy transition, clean energy, green becoming catch words that started attracting significant asset flows. Yet, strategies also started diversifying, with investors questioning whether shorting sectors and / or issuers could represent an additional pressure “to do more”.

Unprecedented flows in clean-tech: According to speakers' estimates, about \$100 billion in assets went in low-carbon, clean technology mutual funds and ETFs globally. This is up significantly from a minuscule number about two years ago. What this also meant that these inflows started to drive valuations of the clean green names to unprecedented heights.

2020 was a strong year for engagement & voting: Two big trends can be seen in 2020. 1) 2020 saw a 125 percent increase in the number of environmental and social shareholder proposals passing. Quality and quantity of proposals increased, and proxy voting agencies increased recommendations to vote “in favour”. A lot of

resolutions focused on climate and diversity, equality and inclusion. 2) Activist investors are willing to play a role to drive ESG impact. On climate change, Climate Action100+ became the largest ever engagement initiative. The initiative published its key targets for 2021.

EU green policies likely to have global implications: The speaker noted that as policymakers and investors are continuing to find ways to incentivize capital flows into businesses that help decarbonize the economy, some of the work that the EU has been doing is going to become increasingly important on a global scale.

Increasing ESG regulation in EU will continue to drive ESG focus in 2021 and beyond. That includes both financial (SFDR, EU taxonomy, Climate Stress Tests from the EBA), as well as industrial regulation (EU ETS reform, CBAM, Circular Economy Strategy, Farm to Fork, etc).

Integrating biodiversity concerns in an investment framework (Panel)

Participants:

Robert-Alexandre Poujade, ESG Analyst, BNP Paribas Asset Management

Andrew Mitchell, Founder, Equilibrium Futures & Founders & Senior Adviser, Natural Capital Finance Alliance

Matthieu Maurin, Co-Founder, Iceberg Data Lab

The IPBES (Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services) highlighted the interconnection between biodiversity loss and pandemics – see [ESG Wire 08/01/2021](#)). As such, Biodiversity loss has become a potential "systemic risk" similar to Climate change, that investors are starting to consider in their investment portfolios, while also trying to create innovative investment vehicles for a "nature positive finance". However, due to the complexity of the topic and the difficulty associated with "Biodiversity measurement", this is easier said than done. In this panel, Andrew Mitchell, founder at Equilibrium Futures, Robert-Alexandre Poujade, ESG analyst at BNP Asset Management, and Matthieu Maurin, CEO of Iceberg Datalab, discussed available tools and frameworks that investors can leverage.

Moderated by:

Jean-Xavier Hecker, Co-Head of ESG & Sustainability research, EMEA Equity Research, J.P. Morgan

A renewed interest in natural capital: The notion of natural capital emerged in the 1970s. Yet the Financial sector became involved at first in 2012 at the Rio+20 Earth Summit, where the "[Natural Capital Declaration](#)" was launched involving several CEOs from the financial sector. This declaration later evolved into the "[Natural Capital Finance Alliance](#)". Yet, according to the panelists, interest in natural capital started increasing drastically over last two years.

Investors are increasingly becoming aware of natural capital dependencies: in a series of report ([New Nature Economy](#)) the WEF highlighted that 44tn of GDP (more than half of global GDP) depends on eco-system services. COVID-19 acted as a catalyst, illustrating how environmental degradation and unrecognized biodiversity risks can lead to massive costs to our economies. Yet, the [Paulson Institute](#) estimates that the financing gap for restoration and conservation represents between 598 and 824bn dollars annually.

Enough data to take action: BNP AM highlighted that there remain disclosure gap on specific KPIs (Water, forest, land use). However, this does not preclude investors from taking action. BNP adopted a strategy on biodiversity, feeding into its existing global sustainability strategy. Most importantly, a direction of travel must be set, to guide investors in the onboarding of new data sources.

Tools exist for a long time outside of the financial sector: panelists highlighted that impact measurement in the field of biodiversity is not a new thing. The Dutch environmental agency developed an indicator called "MSA" (Mean Species Abundance of original species) in its [GLOBIO3 model](#), used by the scientific community. Such models have been popularized in Project Finance by environmental consultants. In the corporate world, some companies have developed "Environmental P&L" models (see [Kering Session](#)). Other tools include the [CDC Biodiversity footprint](#), or [I360X](#) from GIST impact, or resources from the [Natural Capital Protocol](#). Last, investors should look out for the result of the TNFD (Task Force on Nature Related Financial Disclosure, on which 74 financial institutions, governments and regulators are working together to come up with a reporting and disclosure framework.

Tools for portfolio footprinting: A scalable solutions to assess equity & credit portfolio was missing. This is what Iceberg Datalab decided to work on, trying to leverage fintech to balance a bottom-up and top-down approach and produce a biodiversity metric that can be aggregated at portfolio level. Such tools can be leveraged by investors, in complements with other such as ENCORE (UNEP FI &

Global Canopy) which maps the impact and dependencies of 156 (GICS) sectors to 21 ecosystem services.

Consumers staples facing transition risk? Panelists highlighted that the Food sector, as well as clothing and fashion could be facing a transition risk analogous to what fossil fuels faced with climate change, once our economies shift from being nature negative to nature positive. Yet, the food sector is also likely to be the one with the biggest opportunities in future years, in themes such as vertical farming, alternative proteins, and stem cell production of meat.

A need to scale up “nature positive” portfolios: As of today, nature positive portfolios are typically pretty small funds: private equity, blended finance, impact funds. Blended finance approaches, with public institutions providing some derisking in a form of a mezzanine fund, are likely to help scale this up. Currently, instruments such as the [Nature+ Accelerator fund](#) are trying to create a pipeline of projects, which can be scaled up by others. Impact funds, such as those applying the GIIN guidelines, are also addressing nature concerns. In Jan 2021, Global Canopy published “[The Little Book of Investing in Nature](#)” which provides a detailed overview of biodiversity finance.

What investment themes can be played? Structuring a biodiversity related portfolio for listed equity is not easy, due to data challenges, and the fact that so far, biodiversity measurement are more focused on negative impacts than the measurement of opportunities. Exposure to following themes can be looked at: 1) Companies active in ecosystem restoration (sustainable forestry, agricultural machinery) 2) Animal feed 3) Ocean & water ecosystems: e.g. sustainable fish farming. This requires to think about trade-offs between various environmental objectives.

A potential to shift trillions: Panelists expect that by 2023, banks, investors and insurance companies will have framework available to assess the risk dependency and opportunity related to nature in their portfolios. From 2025, the TNFD reporting framework should also be available. Better information to markets could then lead to fundamental shift in capital, similar to what we’ve been witnessing with climate change over the last few years.

Batteries and Mobility: focusing on a fast moving value chain (Panel)

Participants:

Bob Holycross, Vice President,
Sustainability, Environment &
Safety Engineering, Ford

Peter Carlsson, Chief Executive
Officer, Northvolt

Jagdeep Singh, Chief Executive
Officer & Co-Founder,
QuantumScape

Moderated by:

Chetan Udeshi, Head of European
Chemicals Research, J.P. Morgan

We hosted Bob Holycross, Vice President, Sustainability, Environment & Safety Engineering at Ford Motors and Peter Carlsson, CEO of Northvolt, for a session on 'Batteries and Mobility: Focusing on a fast moving value chain'. We discussed a wide-ranging topics from the speakers' expectations of EV penetration globally in the mid- to long-term as well as challenges and opportunities in the scale of EV roll-out globally including around the topics of the sustainability profile of the EV supply chain.

EV penetration expectations: Northvolt expects global light duty EV penetration of 13-15% in 2025 and 32-35% (or even 40% in an optimistic scenario) in 2030. Northvolt expects China to have >50% penetration in 2030 considering the announced targets of the Chinese government around the de-carbonization of the country. Mr. Holycross from Ford didn't offer a specific global EV penetration targets but indicated that it expects different outcomes by regions depending on a number of variables.

Charging Infrastructure: On the topic of charging infrastructure being a potential bottleneck for the adoption of EVs, panelists noted that OEMs were working in partnerships to develop the charging infrastructure. Smart cars and software are set to play a role in optimized trip planning to indicate which stations are available on the chosen route. Smart charging availability can also reduce the range anxiety of consumers in the future. EV chargers are easy to install, but the lack of a unified payment systems and the necessary energy infrastructure might be the real bottlenecks of EV adoption since energy infrastructure has more lead time than charging infrastructure.

Battery chemistry: Most Auto OEMs are starting to develop two EV platforms - one for higher-end models and one for lower-end (mass market) models. The battery chemistries and platforms chosen by OEMs will also differ by intended vehicle type - retail vs. commercial use EVs. The platform route is expected to drive economies of scale. OEMs are projecting 100-200 GWh battery demand per platform and are building gigafactories to achieve production at scale. OEMs want security of supply, and for this purpose, being totally unique in terms of battery technology adoption might not be beneficial.

Recycling: EV battery recyclability is pretty high. Ford sees battery recycling and a broader use in a second life applications as important. Northvolt CEO pointed out that the battery degradation is likely to be sharp after an initial few years. This will likely mean reduced scope for second life batteries. Northvolt talked about the hydrometallurgical process of recycling, which it is currently looking to commercialize, to have up to 90% recyclability rate. This process can recover Lithium in addition to other key metals from the batteries including nickel and cobalt in prime quality.

Supply Chain dynamics and sustainability: China has a lot of headway in terms of battery supply chains while there are massive efforts under in Europe and US. There is a lot of investment required to develop supply chains for battery components in Europe & US and it needs to be done sustainably. Battery production is an energy intensive process and using coal-based energy can be detrimental to the objective of reducing emissions through adoption of EVs. Ford put forward the OEM point of view, mentioning that though EVs have zero emissions, OEMs need to be careful so

as to not create another problem by solving one. To this end, Ford is targeting to power all their facilities with renewable energy by 2035. Responsible sourcing is another area of concern, where technologies like Blockchain can make a difference. OEMs also need to create circular economies, improve recycling and opportunities of second life for batteries.

There is a lot of focus on installing battery plants in Europe; there is a challenge in getting capital allocated for this, but financing is increasing becoming available. Finding engineers with technical know-how to perform industrial level scale up might be an initial challenge amongst others.

Navigating the Hydrogen opportunity (Panel)

Participants:

Amy Davis, President & Vice
President, New Power, Cummins

Patrick Huber, Chairman, H2
Energy

Dr. Graham Cooley, Chief
Executive Officer, ITM Power

Moderated by:

Patrick Jones, EMEA Metals &
Mining Equity Research Analyst,
J.P. Morgan

With more countries and corporates adopting 'net zero' emissions reduction targets, hydrogen is gaining momentum as a low CO₂ alternative for 'hard-to-abate' sectors. Nevertheless, navigating a hydrogen transition will bring with it opportunities as well as challenges for investors, corporates, and policymakers. In this context, we hosted a panel discussion to explore how the hydrogen economy can evolve. Overall, the discussion reinforced our view that the Hydrogen transition is clearly gaining momentum. However, we still expect the H₂ electrolyser industry to remain highly competitive, as we outlined in our major EMEA Hydrogen deep dive ([link](#)). We reiterate our view that investors should now look for relative winners among the H₂ electrolyser OEMs. Thus, we reiterate our OW rating on ITM Power and Neutral rating on Nel ASA.

Next steps for the H₂ transition? Increasing scale and thus volumes is the critical next step for progressing the H₂ transition as these factors will help materially drive down unit costs of green H₂. Further policy support, particularly the launch of Contract for Differences ('CFDs') in the EU later this year, will be supportive for larger-scale projects in Europe. More pilot projects are needed across a wider range of potential end-uses to help develop demand, while greater standardization and infrastructure investment could also help accelerate H₂ adoption.

Technology debate: Alkaline vs PEM vs Solid Oxide? A major question among investors has been the cost difference between alkaline and Proton Exchange Membrane ('PEM') electrolyser systems. The panelists agreed the costs between the two technologies have narrowed and in some cases PEM is now at cost parity with alkaline on a US\$/kw basis, but the choice of PEM vs alkaline could also come down to the specific H₂ end use. The panelists also debated the potential outlook for Solid Oxide Electrolysis ('SOE'), which has not yet reached the commercial viability of alkaline and PEM electrolysis and could still face some performance disadvantages compared to alkaline & PEM systems. However, it could offer some advantages in particular end-uses (i.e. steel).

Chinese electrolysers not yet a material threat to ex-China OEMs. Following on from the discussion about electrolyser technology, the panelists largely agreed that they did not yet see Chinese electrolyser OEMs being able to meaningfully compete for major project orders outside China given the scale and performance of the systems currently being manufactured in China. Also, they did not believe that Chinese alkaline systems are a fraction of the cost of ex-China systems on a US\$/kw basis, and instead do not believe that there is an easy like-for-like comparison with Chinese-manufactured systems today. However, we believe that Chinese manufacturers should not be ruled out entirely. For example, Cummins (Neutral, covered by Ann Duignan) entered into an agreement with Sinopec in Oct'20 to promote the development of electrolysis technology in China ([link](#)).

Growing potential for FCEV trucks & lowering the cost of H₂ at the pump. A significant portion of the discussion focused on the potential for H₂ Fuel Cell EVs, particularly heavy duty vehicles. Panelists agreed that the economics of FCEVs for heavy duty and fleet vehicles could be economic sooner than for personal vehicles, particularly where vehicle emissions are materially taxed. For example, H2Energy is developing a full H₂ ecosystem model with FCEV trucks from Hyundai (OW, covered by SM Kim), which they believe is economic vs diesel trucks today. Lowering electricity prices and reducing H₂ transportation as well as increasing standardization could help lower the cost of H₂ at the pump over time.

Pursuing a vision of zero crashes, zero emissions, and zero congestion (Keynote)

Participants:

Mary Barra, Chief Executive
Officer, General Motors

Moderated by:

Ryan Brinkman, Head of US Autos
Equity Research, J.P. Morgan

We hosted General Motors Chairman & CEO Mary Barra for a keynote address and subsequent fireside chat at the 2021 J.P. Morgan Global ESG Conference in which she conveyed GM's vision of a future with zero crashes, zero emissions, and zero congestion. Ms. Barra conveyed her belief that General Motors has entered 2021 at a tipping point for electric vehicles and an inflection point for sustainability, inclusion, and growth. GM's CEO outlined plans to transition the company's entire portfolio of light vehicles to 100% battery electric by 2035, with these vehicles earning as high or higher margin than the internal combustion powered models they replace. But the embracing of ESG principles goes far beyond the transition of GM's base business, as it lays as well at the heart of its many growth initiatives, ranging from GM Cruise (autonomous electric robo-taxis), to BrightDrop (electric light commercial vehicles and innovative delivery solutions), and Hydrotec (hydrogen fuel cells for commercial trucks and other end-markets).

GM targets expanding upon its history of fostering diversity and inclusion to become no less than the world's most inclusive company: GM intends to build upon its long-standing leadership in fostering diversity and inclusion (e.g., having been the first Fortune 500 company to seat an African American director on its Board, in 1971, and today having more than 290 minority-owned dealerships) with the goal of becoming the world's most inclusive company. Initiatives to this end include the appointment of a Chief Diversity, Equity, and Inclusion officer, the creation of an Inclusion Advisory Board, and the tying of executive compensation to progress in this area. And after recent appointments, GM's Board of Directors is the most diverse ever, including consisting of more women than men. GM has joined with numerous other organizations, such as the NAACP, OneTen, the Gender and Diversity KPI Alliance, and others in pursuit of its goals, with efforts recognized, for example, by Ethisphere, which has cited GM as being amongst the world's "most ethical companies" for the past two years, and by Bloomberg and Equileap in the area of gender equality. GM has extended same-sex spousal benefits to married LGBTQ+ couples since 2012 and maintains strong antidiscrimination policies. GM also aims for an inclusive vehicle lineup, with EVs in every price category, consistent with its belief that EVs are for everyone, as exemplified by the Wuling Hongguang Mini EV — starting at just \$4-\$5K, it is the best-selling EV in China, with 60% of buyers being female and fully 72% born after 1990.

GM is investing heavily to eliminate emissions by transitioning its entire light vehicle portfolio to 100% battery electric by 2035 and targets being entirely carbon neutral by 2040: Ms. Barra in her presentation outlined GM's strategy to invest \$27 bn in electric and autonomous vehicles through 2025 to further its goals of selling 1 mn battery electric vehicles annually between North America and China by 2025 and only battery electric light vehicles globally by 2035. The company is working to reduce battery costs including via vertical integration of cell assembly with LG and its own R&D efforts supported by one of the world's largest automotive battery labs, such that GM sees line of sight to margins as high as or higher than for internal combustion vehicles. GM intends to be carbon neutral between both its products and its operations by 2045, aiming for example to source all electricity from renewables by 2035, five years earlier than its previously stated goal.

Participants:

Annette Nazareth, Senior Counsel,
Davis Polk & Wardwell and
Operating Lead for the Taskforce
on Scaling Voluntary Carbon
Markets

Aaron Scully, Portfolio Manager,
Global Sustainable Equity, Janus
Henderson

Verity Chegar, Member of the
Sustainable Investment &
Stewardship Strategies team,
California Teachers' Retirement
System & Vice Chair of the SASB
Standards Board

Moderated by:

Jean-Xavier Hecker, Co-Head of
ESG & Sustainability research,
EMEA Equity Research, J.P.
Morgan

ESG in the US: A new dawn (Panel)

With ESG interest rising steadily in Asia and Europe at a turning point on Sustainability, the US ESG market was seen as an ESG "sleeping giant" over the last few years. However, the US already represents the 2nd largest ESG market, and the largest American investors are ramping up their ESG focus. Following the publication of the JPM Research wide collaborative report [16/12/20 Build Back Better to Boost ESG](#), we invited stakeholders of the US ESG ecosystem to share their view on the US ESG momentum under the new Democratic administration.

In this panel, we hosted Annette Nazareth, Senior Counsel, Davis Polk & Wardwell, Operating Lead for the Taskforce on Scaling Voluntary Carbon Markets and former SEC Commissioner; **Aaron Scully**, Portfolio Manager, Global Sustainable Equity, Janus Henderson; **and Verity Chegar**, Member of the Sustainable Investment & Stewardship Strategies team, California Teachers' Retirement System & Vice Chair of the SASB Standards Board.

ESG is not a new thing in the USA: Last few years have been a continuation of what has been happening for the last decade in terms of ESG disclosure. Increasing number of investors are looking for this information from corporates and regulatory push from the European Union on ESG disclosures has led to an increased dialogue on this in the United States. This need for data has also resulted in the emergence of more data providers and alternative data sources. Finally, this has raised the question of what information really matters, i.e. the definition of materiality.

Priorities of the Biden administration: Our panelists expect the Biden administration to be extremely active on ESG. Climate change has taken a central role in all levels of the government including the Treasury, Fed and the SEC. Biden's SEC's main focus on ESG reporting revolves around four issues: 1) climate change, 2) board and workplace diversity, 3) political spending, and 4) human capital management (e.g. turnover rates).

What has changed since the Obama era: The current ESG landscape in the US is different from the Obama era because investor demands have changed and they are now looking to invest in sustainable companies. Nazareth outlined four changes since the Obama era – 1) exponential rise in sustainable investing, 2) evidence that consideration of sustainability issues does not impair investor returns, 3) physical risks posed by climate change have become more evident, and 4) the pandemic and racial inequalities leading to social unrest in 2020 has brought social issues under the spotlight.

ESG reporting in the US vs. EU: Our panelists believe that even though the US is still behind the EU in terms of ESG, they have made up considerable ground in terms of both disclosure and investing. The key difference between the two, according to Aaron Scully is the EU is more focused on the 'E' in ESG, while US, especially in the last year, has a very high focus on the 'S' along with 'E' and 'G'. We believe that this view can be nuanced, as we also see social issues coming back at the forefront of discussions in Europe, esp. as they related to environmental issues (see Fair Transition session).

Intent to work together – Convergence of standards: In September 2020, Sustainability Accounting Standards Board (SASB) in conjunction with the Carbon Disclosure Project (CDP), Climate Disclosure Standards Board (CDSB), Global Reporting Initiative (GRI), and International Integrated Reporting Council (IIRC)

published a “[statement of intent to work together towards comprehensive corporate reporting](#)”. Echoing the points we made in our [16/10/20 ESG Wire](#) on the topic, Verity Chegar highlighted the variety and complexity of the available reporting standards creates a problem of incomparability across issuers’ disclosures on ESG. Hence, these organizations intend to work together to bring standardization and rationalization to the ESG reporting landscape. At the end of 2020, SASB and IIRC also announced their intent to merge into an organization called the Value Reporting Framework. A new working group to help sustainability standards converge globally was recently announced (March 24th) by the trustees of the IFRS foundation.

Double materiality at the center: The statement of intent acknowledged the existence of dynamic materiality which is in line with the Double Materiality concept of the European Union (also the foundation of the ESG integration process at JPM – see [Consumer Staples](#), [Oil & Gas](#), [Insurance](#)). Our panelists noted that the SEC continues to be focused on financial materiality (i.e. the financial impact of ESG factors on the company), as does SASB and IFRS. The adoption of dynamic or double materiality would enable the consideration of sustainable materiality (i.e. the impact company has on the ESG factors) as these factors tend to become financially material in the long-term, even if they are not so now. As such, double materiality represents a standard that allows to reconcile short and long term considerations.

The need for a global reporting standard: While noting that there are no concrete decisions yet on the kind of climate reporting framework that SEC will mandate for companies, Nazareth acknowledged the need for a global reporting standard for non-financial disclosures. The ability to reach a consensus on what disclosures will look like will be very important. However, our panelists also admitted that it will be difficult to have a common global framework for ESG as is clear by the non-existence of a global agreement on financial accounting standards.

Biden administration likely to drive capital flows towards ESG strategies: The Biden administration is set to have a great deal of positive impact on ESG in the US. The reasons for this, which will also drive capital flows to ESG strategies, include: 1) Fiscal: The \$3 trillion infrastructure plan, a portion of which would very likely go towards green infrastructure, 2) SEC: The SEC taking strides on ESG disclosure and engagement (see [ESG Wire 05/03/21](#) & [ESG Wire 26/02/21](#)) 3) Federal Reserve: Recent indication of plans of stress testing the Fed's portfolio against climate change risks, and possibly 4) the EPA: EPA could be a wildcard but it is challenged due to state rights which makes it complicated for the agency to take unilateral actions. Consumer demand could be another big driver as they are increasing demanding the companies they buy from to treat all constituents of its ecosystem responsibly. Corporations and asset managers will have to adapt to these new consumers.

SEC’s recent announcement of fighting ESG-related misconduct: Nazareth highlighted that SEC’, as a primary disclosure agency, is likely to drive improvement in ESG reporting in a muscular way. SEC’s focus on misconduct can be divided into two separate buckets – 1) ESG funds that market sustainable products – SEC has looking into potential greenwashing and other abuses for some years now. Without a commonly accepted reporting standard, SEC argues that funds have resources, due diligence and put in place appropriate policies and disclosures regarding their products and investment selection criteria. 2) Corporates - As for companies, the principles-based approach of disclosure, guided by materiality could be argued to provide sufficient guidance to avoid material misstatements with respect to ESG.

Taskforce on Scaling Voluntary Carbon Markets: As the Operating Lead of TSVC, Annette Nazareth emphasized the need for carbon markets to achieve net-zero. She outlined the importance of market confidence, transparency, liquidity, robustness and integrity to make these markets a success.

Participants:

Andrew Kassoy, Co-Founder &
Chief Executive Officer, B Lab
Global

Eva Zlotnicka, Founder &
Managing Partner, Inclusive
Capital

Moderated by:

Hugo Dubourg, Co-Head of ESG &
Sustainability research, EMEA
Equity Research, J.P. Morgan

How to foster the long-term focus of capital? (Panel)

Short-termism has been a frequent criticism of financial markets for decades. Yet over the last few years, the growing prevalence of Activist Investors tactics, with most recently the ousting of Emmanuel Faber at Danone, the development of algorithmic and high frequency trading, or even the structure of remuneration and incentives schemes in the financial industry have been generally mentioned as either causes or consequences of market short-termism.

Initiatives to tackle this perceived market short termism have multiplied. For example, - Focus Capital on the Long-Term - FCLTGlobal a non-profit organization backed by investors and companies that develops research and tools to drive long-term growth. The European Union Sustainable Corporate Governance plan – which aims to force European companies to integrate long-term sustainability issues. Or even the launch at the end of last year of the Long Term Stock Exchange, a new Stock Exchange explicitly aiming to help long-term investors financing long-term companies.

In this panel, we questioned the relationship between ESG issues, which tend to be long-term by nature, and the fast paced environment of the financial and business worlds.

Presentation of the panelists:

Eva Zlotnicka Founder and Managing Partner of Inclusive Capital, a fund launched in June 2020 and aiming to work with management teams and boards with the courage to lead on solutions to climate change and social inequity and show that this can generate significant shareholder value

Andrew Kassoy, Managing Partner and Co-Founder of B Lab, a network of organizations aiming to transform the global economy to benefit people, communities, and the planet. B-Lab is most known through the B-Corp certification.

Key takeaways from the panel:

There is clear demand for Companies to have more purpose and more social & environmental contribution: B-Lab was founded in 2006 on the idea that there is a need for companies to increase their societal contributions beyond financial value creation. The NGO is providing them with a purpose and a framework – B-Corp. Since its creation, the number of B-Corp has increased significantly now reached around 4,000 companies worldwide, with 16 publicly listed B-Corps. There has been an increase in the number of listed B-Corps in the recent past (Lemonade, AppHarvest).

Activist investing can apply to Sustainability: As we discussed in our ESG Wire (Are Activist investors surfing the ESG Wave?), multiple factors are pushing for the consideration of ESG, including market hype, the need to get the support of institutional investors, and the growing consensus around the valuation/performance impact of ESG factors. We believe that so far, the focus of activist on Climate issues demonstrate the greater financial relevance of these issues but with more regulation on social issues (EU Due Diligence for Supply Chains), the focus could broaden.

An increased focus on ESG may not be enough, to reach “system change”:

Andrew Kassoy highlighted that B-Lab was launched with the goal of changing the nature of the economic system. The current trend on ESG investing relies on the correlation of ESG performance and financial performance, but to achieve systemic change and drive increased impact, there may be a need to question the notions of financial materiality, shareholder value maximization and ultimately fiduciary duty. We made similar comment regarding sustainable investment in our [ESG primer](#). For companies seeking a B-Corp certification, this “system change” translates into the adoption of an alternative corporate form such as Benefit Corporation as the ultimate step of the process.

How to look for a corporate “target” for activism? Eva Zlotnicka of Inclusive Capital highlighted 4 elements: valuation, the alignment of the business model with a sustainability challenge and/or a megatrend (Climate Change mitigation, education, health, circular economy...), the quality of the business, and finally the capacity for Inclusive Capital to help drive change. This analysis is in line with the [comments made by Federated Hermes during the SDG panel](#), with the addition of the investor's own capacity to drive change, which is by definition the “activist” touch.

The IPO and SPAC Boom could lead to unintended consequences: Our two panelists expressed their enthusiasm for the unprecedented number of companies being listed through IPO or SPAC, as a number of them are focusing on developing products and services to sustainability issues. Yet they expressed concerns regarding the maturity of some business, which could ultimately lead them to be targeted by activists or larger groups. In the past a number of private B-Corp have been acquired by listed companies (Danone-WhiteWave, Unilever-Ben&Jerries), and Andrew Kassoy highlighted that this was actually the primary source of exit for B-Corps. Yet he also stressed that in most cases, the acquired B-corps tended to operate as independent subsidiaries as acquirers were keen on maintaining the corporate culture.

“Climate: what really matters when making an impact and exceptional returns” (Fireside Chat)

Participants:

Vinod Khosla, Founder, Khosla Ventures

Moderated by:

Interviewed by: Azeem Azhar, Founder, Exponential View

Azeem Azhar, independent analyst, technology investor and podcaster (Exponential View) conducted a fireside chat with **Vinod Khosla**, founder of Khosla Ventures, to discuss the challenges associated with risky science investments, in emerging technologies such as cleantech, alternative fuels, or meat substitutes, addressing the following question: climate: what really matters when making an impact and exceptional returns?

A need to recognize we are on the wrong pathway: Speakers highlighted that the world ecological problems are largely linked to the lifestyle of a few. Scaling up the current economic model to satisfy the need of the remaining 90% would not be possible from an environmental standpoint. As such, what can be seen as a problem also represents a massive opportunity to drive transformation and launch large business enterprises.

Incumbent firms will never drive revolutions: Speakers conveyed the view that incumbents have little chance to drive changes at scale. Recent history provided multiple examples of that: Tesla vs. OEMs, SpaceX & Rocket Lab vs. Boeing, Airbus, and Lockheed, YouTube, Netflix, Facebook, Twitter vs. CBS, NBC or Fox.

Innovative solutions to watch for: Khosla highlighted several market segments in which he expects technological disruptions to come from start-ups willing to take risk, naming several of the companies his firm invested in: aviation fuel (LanzaTech), low carbon cement (Fortera), alternative proteins (Impossible Food). In particular, he highlighted that some of the products developed by Fortera are already competitive vs. traditional cement, pointing out to the fact that green cement were near to the point where they would dramatically reduce cost.

University funding is crucial to allowing breakthrough innovations: Khosla highlighted the need to have strong university funding, given that start-ups massively employ PhD & scientists. University and government research are very critical, to train talents who might become entrepreneurs.

Government have a role to play to scale up new technologies: Khosla highlighted that incumbent technologies tend to have benefitted from several decades of cost optimizations, which may contribute to their competitiveness vs. new and cleaner technologies. Government policies can help leapfrog the optimization phase, with subsidies declining with scale to zero.

ESG opportunities beyond climate: Khosla sees AI applications for personal education and personal medical services as a potential massive disruption over the next decade, which could deliver an important social impact.

Reflecting on SPACs: Khosla reflected on the ways to design SPACs in a way respond to concerns of opportunism. He pointed out that his company designed a SPAC that would eliminate warrants and make sure that promoters' compensation was performance based, over a 10 years period. He highlighted that SPACs could be valuable in long term ESG funding projects.

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